NEW ISSUE—BOOK-ENTRY ONLY

Ratings: S&P (Insured): "AA"
KBRA (Insured): "AA+"
S&P (Underlying): "A"
(See "MISCELLANEOUS — Ratings" herein.)

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the District, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Series A Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Series A Bonds. See "TAX MATTERS" herein.

$27,500,000
HEMET UNIFIED SCHOOL DISTRICT
(Riverside County, California)
2019 General Obligation Bonds, Election of 2018, Series A

Dated: Date of Delivery **Due: August 1, as shown herein**

This cover page is not a summary of this issue; it is only a reference to the information contained in this Official Statement. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Hemet Unified School District (Riverside County, California) 2019 General Obligation Bonds, Election of 2018, Series A (the "Series A Bonds") are issued by the Hemet Unified School District (the "District"), located in the County of Riverside (the "County"), to (i) finance specific construction, repair and improvement projects approved by the voters of the District, and (ii) pay costs of delivery with respect to the Series A Bonds. The Series A Bonds were authorized at an election of the voters of the District held on November 6, 2018, at which at least 55% of the voters authorized the issuance and sale of $150,000,000 aggregate principal amount of bonds of the District. The Series A Bonds are being issued under the laws of the State of California (the "State") and pursuant to a resolution of the Governing Board of the District, adopted on February 5, 2019.

The Series A Bonds are payable from *ad valorem* taxes to be levied within the District pursuant to the California Constitution and other State law. The Board of Supervisors of the County is empowered and obligated to levy *ad valorem* taxes upon all property subject to taxation by the District, without limitation as to rate or amount (except as to certain personal property which is taxable at limited rates), for the payment of principal of and interest on the Series A Bonds, all as more fully described herein. See "SECURITY AND SOURCE OF PAYMENT FOR THE SERIES A BONDS" herein.

The Series A Bonds will be issued as current interest bonds, as set forth on the inside front cover hereof. Interest on the Series A Bonds is payable on each February 1 and August 1 to maturity, commencing August 1, 2019. Principal of the Series A Bonds is payable on August 1 in each of the years and in the amounts set forth on the inside front cover hereof.

The Series A Bonds will be issued in denominations of $5,000 principal amount, or any integral multiple thereof as shown on the inside front cover hereof.

The scheduled payment of principal of and interest on the Series A Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Series A Bonds by ASSURED GUARANTY MUNICIPAL CORP.

The Series A Bonds will be issued in book-entry form only and will be initially issued and registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Series A Bonds. Individual purchases of the Series A Bonds will be made in book-entry form only. Purchasers will not receive physical delivery of the Series A Bonds purchased by them. See "THE SERIES A BONDS – Form and Registration" herein. Payments of the principal of and interest on the Series A Bonds will be made by U.S. Bank National Association, as paying agent, registrar and transfer agent with respect to the Series A Bonds, to DTC for subsequent disbursement to DTC Participants, who will remit such payments to the beneficial owners of the Series A Bonds. See "THE SERIES A BONDS – Payment of Principal and Interest" herein.

The Series A Bonds are subject to redemption prior to maturity as described herein. See "THE SERIES A BONDS — Redemption" herein.

The Series A Bonds will be sold and awarded by competitive bid to be held on February 13, 2019, as set forth in the Official Notice of Sale, dated February 6, 2019, as supplemented by the Supplement to Official Notice of Sale, dated February 7, 2019. The Series A Bonds will be offered when, as and if issued by the District, subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, Irvine, California, Bond Counsel to the District. Certain legal matters will be passed upon for the District by Orrick, Herrington & Sutcliffe LLP, Irvine, California, as Disclosure Counsel to the District. It is anticipated that the Series A Bonds, in definitive form, will be available for delivery through the facilities of DTC on or about February 26, 2019.

Dated: February 13, 2019.

MATURITY SCHEDULE
BASE CUSIP†: 423542

$27,500,000
HEMET UNIFIED SCHOOL DISTRICT
(Riverside County, California)
2019 General Obligation Bonds, Election of 2018, Series A

$20,175,000 Serial Series A Bonds

Maturity (August 1)	Principal Amount	Interest Rate	Yield	CUSIP Number†
2020	$ 520,000	5.00%	1.46%	NG0
2021	1,080,000	5.00	1.50	NH8
2028	335,000	2.25	2.25	NQ8
2029	535,000	2.25	2.35	NR6
2030	705,000	2.50	2.50	NS4
2031	700,000	2.75	2.76	NT2
2032	775,000	3.00	3.00	NU9
2033	855,000	3.00	3.14	NV7
2034	945,000	3.25	3.25	NW5
2035	1,040,000	3.25	3.35	NX3
2036	1,135,000	4.00	3.11C	NY1
2037	1,250,000	4.00	3.17C	NZ8
2038	1,370,000	4.00	3.23C	PA1
2039	1,500,000	4.00	3.28C	PB9
2040	1,635,000	4.00	3.33C	PC7
2041	1,775,000	4.00	3.36C	PD5
2042	1,930,000	4.00	3.38C	PE3
2043	2,090,000	4.00	3.40C	PF0

$7,325,000 4.00% Term Series A Bonds due August 1, 2046 – Yield 3.43%C - CUSIP Number† PJ2

C Yield to call at par on August 1, 2028.

HEMET UNIFIED SCHOOL DISTRICT
(Riverside County, California)

GOVERNING BOARD

Megan Haley, *President*
Rob Davis, *Vice President*
Stacey Baily, *Member*
Gene Hikel, *Member*
Vic Scavarda, *Member*
Patrick Searl, *Member*
Horacio Valenzuela, *Member*

DISTRICT ADMINISTRATORS

Christi Barrett, *Superintendent*
Darrin Watters, *Deputy Superintendent, Business Services*

PROFESSIONAL SERVICES

Municipal Advisor

Fieldman, Rolapp & Associates, Inc.
Irvine, California

Bond Counsel and Disclosure Counsel

Orrick, Herrington & Sutcliffe LLP
Irvine, California

Paying Agent, Registrar and Transfer Agent

U.S. Bank National Association
Los Angeles, California

This Official Statement does not constitute an offering of any security other than the original offering of the Series A Bonds by the District. No dealer, broker, salesperson or other person has been authorized by the District to give any information or to make any representations other than as contained in this Official Statement, and if given or made, such other information or representation not so authorized should not be relied upon as having been given or authorized by the District.

The Series A Bonds are exempt from registration under the Securities Act of 1933, as amended, pursuant to Section 3(a)2 thereof. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy Series A Bonds in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make such offer or solicitation.

The information set forth herein other than that furnished by the District, although obtained from sources which are believed to be reliable, is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the District. The information and expressions of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District since the date hereof. This Official Statement is submitted in connection with the sale of the Series A Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements.” Such statements are generally identifiable by the terminology used, such as “plan,” “expect,” “estimate,” “budget,” “intend” or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The District does not plan to issue any updates or revisions to those forward-looking statements if or when their expectations, or events, conditions or circumstances on which such statements are based, occur.

Assured Guaranty Municipal Corp. (“AGM”) makes no representation regarding the Series A Bonds or the advisability of investing in the Series A Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading “BOND INSURANCE” and “APPENDIX H – SPECIMEN MUNICIPAL BOND INSURANCE POLICY.”

The District maintains a website. However, the information presented there is not part of this Official Statement and should not be relied upon in making an investment decision with respect to the Series A Bonds.

In connection with this offering, the initial purchaser of the Series A Bonds (the “Initial Purchaser”) may overallot or effect transactions which stabilize or maintain the market prices of the Series A Bonds at levels above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Initial Purchaser may offer and sell the Series A Bonds to certain securities dealers and dealer banks and banks acting as agent at prices lower than the public offering prices stated on the inside front cover page hereof and said public offering prices may be changed from time to time by the Initial Purchaser.

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$27,500,000
HEMET UNIFIED SCHOOL DISTRICT
(Riverside County, California)
2019 General Obligation Bonds, Election of 2018, Series A

INTRODUCTION

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the Series A Bonds to potential investors is made only by means of the entire Official Statement.

General

This Official Statement, which includes the cover page, inside cover page and appendices hereto, is provided to furnish information in connection with the sale of $27,500,000 aggregate principal amount of Hemet Unified School District (Riverside County, California) 2019 General Obligation Bonds, Election of 2018, Series A (the "Series A Bonds"), all as indicated on the inside front cover hereof, to be offered by the Hemet Unified School District (the "District").

This Official Statement speaks only as of its date, and the information contained herein is subject to change. The District has no obligation to update the information in this Official Statement, except as required by the Continuing Disclosure Certificate to be executed by the District. See "OTHER LEGAL MATTERS – Continuing Disclosure" and APPENDIX D – FORM OF CONTINUING DISCLOSURE CERTIFICATE.

The purpose of this Official Statement is to supply information to prospective buyers of the Series A Bonds. Quotations from and summaries and explanations of the Series A Bonds, the resolution of the Governing Board of the District relating to the Series A Bonds, and the constitutional provisions, statutes and other documents described herein, do not purport to be complete, and reference is hereby made to said documents, constitutional provisions and statutes for the complete provisions thereof.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the District and the purchasers or owners of any of the Series A Bonds.

Copies of documents referred to herein and information concerning the Series A Bonds are available from the District by contacting: Hemet Unified School District, 1791 West Acacia Avenue, Hemet, California 92545, Attention: Superintendent. The District may impose a charge for copying, handling and mailing such requested documents.

The District

The District was established on July 1, 1966, as a result of the unification of the Alamos and Cottonwood Districts, the Hemet Valley Union School District and the Hemet Union High School District. The District covers approximately 650 square miles in the western part of the County of Riverside (the "County"). The City of Hemet, portions of the City of San Jacinto, and unincorporated areas of the County, including the communities of Idyllwild, Anza, Aguanga and Winchester are situated within the District's boundaries. Hemet is located approximately 45 miles west of Palm Springs, 75 miles north of San Diego, 65 miles east of Los Angeles and 35 miles southeast of Riverside.

The District has a current enrollment of 21,371 students. The District currently operates preschool centers at nine school locations, eleven elementary schools (transitional kindergarten through fifth grade), three elementary/middle schools (transitional kindergarten through eighth grade), four middle schools (sixth through eighth grade), four comprehensive high schools (ninth through twelfth grade), one continuation high school (eleventh through twelfth grade), a science-based charter middle/high school (sixth through twelfth grade), an adult education center, independent study programs, a home school program, and a self-paced on-line instruction program offer a wide variety of learning opportunities for students of all ages. The charter school is operated by the District and its financial activities are presented in the District's audited financial statements in the Charter School Special Revenue Fund.

The District is governed by a Governing Board consisting of seven members who are elected at large to staggered four-year terms at elections held every two years. The District is divided into three trustee areas. The District's affairs are administered by a superintendent, who is appointed by the Governing Board. Christi Barrett has served as Superintendent of the District since June 2016.

Total assessed valuation of taxable property in the District in fiscal year 2018-19 is $11,096,318,956. The District operates under the jurisdiction of the Riverside County Superintendent of Schools.

For additional information about the District, see APPENDIX A − "INFORMATION RELATING TO THE DISTRICT'S OPERATIONS AND BUDGET" and APPENDIX B – "FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2018."

Bond Insurance Policy

Concurrently with the issuance of the Series A Bonds, Assured Guaranty Municipal Corp. ("AGM") will issue its Municipal Bond Insurance Policy (the "Policy") for the Series A Bonds. The Policy guarantees the scheduled payment of principal of and interest on the Series A Bonds when due as set forth in the form of the Policy included as Appendix H to this Official Statement. See "BOND INSURANCE."

THE SERIES A BONDS

Authority for Issuance; Purpose

The Series A Bonds are issued under the provisions of Article 4.5 of Chapter 3, of Part 1 of Division 2 of Title 5 of the California Government Code and Article XIIIA of the California Constitution and pursuant to a resolution adopted by the Governing Board of the District on February 5, 2019 (the "Resolution").

At an election held on November 6, 2018, the District received authorization under Measure X to issue general obligation bonds of the District in an aggregate principal amount not to exceed $150,000,000 to improve neighborhood school safety and security; upgrade academic, science, technology, engineering, math, vocational classrooms/labs; repair deteriorating plumbing, roofs, electrical systems; and remove asbestos/lead paint (collectively, the "2018 Authorization"). Measure X required approval by at least 55% of the votes cast by eligible voters within the District and received an approval vote of 61.84%. The Series A Bonds represent the first series of authorized bonds to be issued under the 2018 Authorization and will be issued to (i) finance specific construction, repair and improvement projects approved by the voters of the District and (ii) pay costs of delivery with respect to the Series A Bonds. See "−*Application and Investment of Series A Bond Proceeds*" herein.

Form and Registration

The Series A Bonds will be issued in fully registered form only, without coupons, in denominations of $5,000 principal amount or integral multiples thereof. The Series A Bonds will initially be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository of the Series A Bonds. Purchases of Series A Bonds under the DTC book-entry system must be made by or through a DTC participant, and ownership interests in Series A Bonds will be recorded as entries on the books of said participants. Except in the event that use of this book-entry system is discontinued for the Series A Bonds, beneficial owners of the Series A Bonds ("Beneficial Owners") will not receive physical certificates representing their ownership interests. See APPENDIX G − "BOOK-ENTRY ONLY SYSTEM."

Payment of Principal and Interest

Interest. The Series A Bonds will be dated as of their date of delivery, and bear interest at the rates set forth on the inside front cover page of this Official Statement, payable on February 1 and August 1 of each year (each, an "Interest Payment Date"), commencing on August 1, 2019, computed on the basis of a 360-day year consisting of twelve 30-day months. Each Series A Bond will bear interest from the Interest Payment Date next preceding the date of authentication thereof, unless it is authenticated after the close of business on the 15th day of the calendar month immediately preceding an Interest Payment Date (the "Record Date") and on or prior to the succeeding Interest Payment Date, in which event it will bear interest from such Interest Payment Date, or unless it is authenticated on or before the Record Date preceding the first Interest Payment Date, in which event it will bear interest from its dated date; provided, however, that if, at the time of authentication of any Series A Bond, interest is in default on any outstanding Series A Bonds, such Series A Bond will bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment on the outstanding Series A Bonds.

Payment of Series A Bonds. The principal of the Series A Bonds is payable in lawful money of the United States of America upon the surrender thereof at the principal corporate trust office of U.S. Bank National Association, as paying agent (the "Paying Agent") at the maturity thereof or upon redemption prior to maturity.

Interest on the Series A Bonds is payable in lawful money of the United States of America by check mailed on each Interest Payment Date (if a business day, or on the next business day if the Interest Payment Date does not fall on a business day) to the registered owner thereof (the "Owner") at such Owner's address as it appears on the bond registration books kept by the Paying Agent or at such address as the Owner may have filed with the Paying Agent for that purpose, except that the payment shall be made by wire transfer of immediately available funds to any Owner of at least $1,000,000 of outstanding Series A Bonds who shall have requested in writing such method of payment of interest prior to the close of business on a Record Date. So long as the Series A Bonds are held by Cede & Co., as nominee of DTC, payment shall be made by wire transfer. See APPENDIX G − "BOOK-ENTRY ONLY SYSTEM."

Redemption

Optional Redemption. The Series A Bonds maturing on or before August 1, 2028, are not subject to optional redemption prior to their respective stated maturity dates. The Series A Bonds maturing on or after August 1, 2029, are subject to redemption prior to their respective stated maturity dates, at the option of the District, from any source of available funds, as a whole or in part on any date on or after August 1, 2028, at a redemption price equal to the principal amount of the Series A Bonds called for redemption, together with interest accrued thereon to the date of redemption, without premium.

Mandatory Sinking Fund Redemption. The $7,325,000 term Series A Bonds maturing on August 1, 2046 are subject to mandatory sinking fund redemption on August 1 in each of the years and in the respective principal amounts as set forth in the following schedule, at a redemption price equal to 100% of the principal amount thereof to be redeemed, together with interest accrued thereon to the date fixed for redemption, without premium:

Mandatory Sinking Fund Redemption Date (August 1)	Principal Amount to be Redeemed
2044	$2,260,000
2045	2,440,000
2046†	2,625,000

† Maturity.

The principal amount of the $7,325,000 term Series A Bonds maturing on August 1, 2046, to be redeemed in each year shown above will be reduced proportionately, or as otherwise directed by the District, in integral multiples of $5,000, by any portion of such term Series A Bonds optionally redeemed prior to the mandatory sinking fund redemption date.

Selection of Series A Bonds for Redemption. If less than all of the Series A Bonds are called for redemption, the Series A Bonds shall be redeemed in inverse order of maturities or as otherwise directed by the District. Whenever less than all of the outstanding Series A Bonds of any one maturity are designated for redemption, the Paying Agent shall select the outstanding Series A Bonds of such maturity to be redeemed by lot in any manner deemed fair by the Paying Agent. For purposes of such selection, each Series A Bond shall be deemed to consist of individual Series A Bonds of denominations of $5,000 principal amount, each, which may be separately redeemed.

Notice of Redemption. Notice of redemption of any Series A Bond will be given by the Paying Agent not less than 30 nor more than 60 days prior to the redemption date (i) by first class mail to the County and the respective Owners thereof at the addresses appearing on the bond registration books, and (ii) as may be further required in accordance with the Continuing Disclosure Certificate with respect to the Series A Bonds. See APPENDIX D – "FORM OF CONTINUING DISCLOSURE CERTIFICATE."

Each notice of redemption will contain the following information: (i) the date of such notice; (ii) the name of the Series A Bonds and the date of issue of the Series A Bonds; (iii) the redemption date; (iv) the redemption price; (v) the dates of maturity or maturities of Series A Bonds to be redeemed; (vi) if less than all of the Series A Bonds of any maturity are to be redeemed the distinctive numbers of the Series A Bonds of each maturity to be redeemed; (vii) in the case of Series A Bonds redeemed in part only, the respective portions of the principal amount of the Series A Bonds of each maturity to be redeemed; (viii) the CUSIP number, if any, of each maturity of Series A Bonds to be redeemed; (ix) a statement that such Series A Bonds must be surrendered by the Owners at the principal corporate trust office of the Paying Agent or at such other place or places designated by the Paying Agent; (x) notice that further interest on such Series A Bonds will not accrue after the designated redemption date; and (xi) in the case of a conditional notice, that such notice is conditioned upon certain circumstances and the manner of rescinding such conditional notice. The actual receipt by the Owner of any Series A Bond or by any securities depository or information service of notice of redemption shall not be a condition precedent to redemption, and failure to receive such notice, or any defect in the notice given, shall not affect the validity of the proceedings for the redemption of such Series A Bonds or the cessation of interest on the date fixed for redemption.

Effect of Notice of Redemption. When notice of redemption has been given substantially as described above and when the redemption price of the Series A Bonds called for redemption is set aside, the Series A Bonds designated for redemption shall become due and payable on the specified redemption date and interest shall cease to accrue thereon as of the redemption date, and upon presentation and surrender of such Series A Bonds at the place specified in the notice of redemption, such Series A Bonds shall be redeemed and paid at the redemption price thereof out of the money provided therefor. The Owners of such Series A Bonds so called for redemption after such redemption date shall look for the payment of such Series A Bonds and the redemption premium thereon, if any, only to moneys on deposit for the purpose in the interest and sinking fund of the District within the County treasury (the “Interest and Sinking Fund”) or the trust fund established for such purpose. All Series A Bonds redeemed shall be cancelled forthwith by the Paying Agent and shall not be reissued.

Right to Rescind Notice. The District may rescind any optional redemption and notice thereof for any reason on any date prior to the date fixed for redemption by causing written notice of the rescission to be given to the owners of the Series A Bonds so called for redemption. Any optional redemption and notice thereof shall be rescinded if for any reason on the date fixed for redemption moneys are not available in the Interest and Sinking Fund of the District or otherwise held in trust for such purpose in an amount sufficient to pay in full on said date the principal of, interest, and any premium due on the Series A Bonds called for redemption. Notice of rescission of redemption shall be given in the same manner in which notice of redemption was originally given. The actual receipt by the owner of any Series A Bond of notice of such rescission shall not be a condition precedent to rescission, and failure to receive such notice or any defect in such notice shall not affect the validity of the rescission.

Defeasance of Series A Bonds

The District may pay and discharge any or all of the Series A Bonds by depositing in trust with the Paying Agent or an escrow agent at or before maturity, money or non-callable direct obligations of the United States of America or other non-callable obligations the payment of the principal of and interest on which is guaranteed by a pledge of the full faith and credit of the United States of America, in an amount which will, together with the interest to accrue thereon and available moneys then on deposit in the Interest and Sinking Fund of the District, be fully sufficient to pay and discharge the indebtedness on such Series A Bonds (including all principal, interest and redemption premiums) at or before their respective maturity dates.

Unclaimed Moneys

Any money held in any fund or by the Paying Agent or an escrow agent in trust for the payment of the principal of, redemption premium, if any, or interest on the Series A Bonds and remaining unclaimed for two years after the principal of such Series A Bonds has become due and payable (whether by maturity or upon prior redemption) is required to be transferred to the Interest and Sinking Fund of the District for payment of any outstanding bonds of the District payable from said fund; or, if no such bonds of the District are at such time outstanding, said moneys is required to be transferred to the general fund of the District as provided and permitted by law.

Application and Investment of Series A Bond Proceeds

The proceeds of the Series A Bonds are expected to be applied as follows:

HEMET UNIFIED SCHOOL DISTRICT
(Riverside County, California)
2019 General Obligation Bonds, Election of 2018, Series A

Estimated Sources and Uses of Funds

Sources of Funds:	
Principal Amount of Series A Bonds	$27,500,000.00
Plus Net Original Issue Premium	1,130,558.95
Total Sources of Funds	$28,630,558.95
Uses of Funds:	
Deposit to Building Fund	$27,320,000.00
Deposit to Interest and Sinking Fund[(1)]	742,946.45
Costs of Issuance[(2)]	265,900.00
Initial Purchaser's Discount	301,712.50
Total Uses of Funds	$28,630,558.95

[(1)] Consists of premium received by the District.
[(2)] Includes legal fees, municipal advisor fees, rating agency fees, printing fees, bond insurance premium, and other miscellaneous expenses.

Under California law, all money received by or apportioned to a school district must generally be paid into and held in the County treasury. The proceeds from the sale of the Series A Bonds, less amounts necessary to pay costs of issuance, will be deposited in the County treasury to the credit of the building fund of the District (the "Building Fund") and shall be accounted for together with the proceeds of other bonds of the District separately from all other District and County funds. Such proceeds shall be applied solely for the purposes for which the Series A Bonds were authorized. Any premium or accrued interest on the Series A Bonds received by the District will be deposited in the Interest and Sinking Fund of the District in the County treasury. Interest and earnings on each fund will accrue to that fund. All funds held by the County Treasurer-Tax Collector (the "County Treasurer") in the Building Fund and the Interest and Sinking Fund are expected to be invested at the sole discretion of the County Treasurer on behalf of the District in such investments as are authorized by Section 53601 and following of the California Government Code and the investment policy of the County, as either may be amended or supplemented from time to time. See APPENDIX E − "RIVERSIDE COUNTY POOLED INVESTMENT FUND" and "APPENDIX F – COUNTY OF RIVERSIDE OFFICE OF THE TREASURER-TAX COLLECTOR STATEMENT OF INVESTMENT POLICY" for a description of the permitted investments under the investment policy of the County. In addition, to the extent permitted by law and the investment policy of the County, the District may request in writing that all or any portion of the funds held in the Building Fund of the District may be invested in investment agreements, including guaranteed investment contracts, float contracts or other investment products which comply with the requirements of each rating agency then rating the Series A Bonds. The County Treasurer does not monitor such investments for arbitrage compliance and does not perform any arbitrage calculations with respect to such investments.

Debt Service

Debt service on the Series A Bonds, assuming no early redemptions, is as set forth in the following table.

HEMET UNIFIED SCHOOL DISTRICT
(Riverside County, California)
2019 General Obligation Bonds, Election of 2018, Series A

Year Ending August 1,	Principal	Interest	Total Debt Service
2019	-	$ 452,196.35	$ 452,196.35
2020	$ 20,000.00	1,050,262.50	1,570,262.50
2021	1,080,000.00	1,024,262.50	2,104,262.50
2022	-	970,262.50	970,262.50
2023	-	970,262.50	970,262.50
2024	-	970,262.50	970,262.50
2025		970,262.50	970,262.50
2026	-	970,262.50	970,262.50
2027	-	970,262.50	970,262.50
2028	335,000.00	970,262.50	1,305,262.50
2029	535,000.00	962,725.00	1,497,725.00
2030	705,000.00	950,687.50	1,655,687.50
2031	700,000.00	933,062.50	1,633,062.50
2032	775,000.00	913,812.50	1,688,812.50
2033	855,000.00	890,562.50	1,745,562.50
2034	945,000.00	864,912.50	1,809,912.50
2035	1,040,000.00	834,200.00	1,874,200.00
2036	1,135,000.00	800,400.00	1,935,400.00
2037	1,250,000.00	755,000.00	2,005,000.00
2038	1,370,000.00	705,000.00	2,075,000.00
2039	1,500,000.00	650,200.00	2,150,200.00
2040	1,635,000.00	590,200.00	2,225,200.00
2041	1,775,000.00	524,800.00	2,299,800.00
2042	1,930,000.00	453,800.00	2,383,800.00
2043	2,090,000.00	376,600.00	2,466,600.00
2044	2,260,000.00	293,000.00	2,553,000.00
2345	2,440,000.00	202,600.00	2,642,600.00
2046	2,625,000.00	105,000.00	2,730,000.00
Total:	$27,500,000.00	$21,125,121.35	$48,625,121.35

Outstanding Bonds

In addition to the Series A Bonds, the District has four additional series of general obligation bonds outstanding, each of which is secured by *ad valorem* taxes upon all property subject to taxation by the District on a parity with the Series A Bonds.

2002 Authorization and Bond Issuances. At an election held on March 5, 2002, the District received approval by at least 55% of the votes cast by eligible voters within the District under Measure E to issue general obligation bonds of the District in an aggregate principal amount not to exceed $60,000,000 (the “2002 Authorization”).

On June 20, 2002, the District issued $23,000,000 aggregate principal amount of its General Obligation Bonds, 2002 Election, Series A (the “Series 2002A Bonds”) as its first series of authorized bonds issued under the 2002 Authorization. On June 19, 2003, the District issued $15,000,000 aggregate principal amount of its General Obligation Bonds, 2002 Election, Series B (the “Series 2002B Bonds”), as its second series of authorized bonds issued under the 2002 Authorization. On June 10, 2004, the District issued $10,000,000 aggregate principal amount of its General Obligation Bonds, 2002 Election, Series C (the “Series 2002C Bonds”), as its third series of bonds issued under the 2002 Authorization. On June 8, 2005, the District issued $6,000,000 aggregate principal amount of its General Obligation Bonds, 2002 Election, Series D (the “Series 2002D Bonds”) as its fourth series of authorized bonds issued under the 2002 Authorization. On February 1, 2006, the District issued $6,000,000 aggregate principal amount of its General Obligation Bonds, 2002 Election, Series E (the “Series 2002E Bonds”) as its fifth and final series of bonds issued under the 2002 Authorization.

2006 Authorization and Bond Issuances. At an election held on November 7, 2006, the District received approval by at least 55% of the votes cast by eligible voters within the District under Measure T to issue general obligation bonds of the District in an aggregate principal amount not to exceed $149,000,000 (the “2006 Authorization”).

On March 15, 2007, the District issued $60,000,000 aggregate principal amount of its General Obligation Bonds, 2006 Election, Series A (the “Series 2006A Bonds”) as its first series of authorized bonds issued under the 2006 Authorization. On March 19, 2008, the District issued $40,000,000 aggregate principal amount of its General Obligation Bonds, 2006 Election, Series B (the “Series 2006B Bonds”), as its second series of authorized bonds issued under the 2006 Authorization. On July 22, 2010, the District issued its Taxable Direct-Pay 2010 Qualified School Construction General Obligation Bond Anticipation Notes (the “2010 BANs”) in the aggregate principal amount of $25,000,000 in anticipation of the issuance of a third series of bonds issued under the 2006 Authorization, which was subsequently reauthorized under the 2012 Reauthorization (as defined and described below).

2012 Reauthorization and Bond Issuance. At an election held on November 6, 2012, the District received approval by at least 55% of the votes cast by eligible voters within the District under Measure U to continue renovating, equipping and constructing classrooms/school facilities throughout the District; upgrade/replace outstated heating, ventilation, air-conditioning systems and reduce overall borrowing costs and to reauthorize the remaining $49,000,000 aggregate principal amount of bonds that were originally approved under the 2006 Authorization (the “2012 Reauthorization”).

On May 19, 2015, the District issued its General Obligation Bonds, 2012 Election, Series A (the “Series 2012A Bonds”) in the aggregate principal amount of $49,000,000 as its first and only series of bonds to be issued under the 2012 Reauthorization. The 2010 BANs were due on July 1, 2015 and were paid with the proceeds of the Series 2012A Bonds.

2018 Authorization and Bond Issuance. The Series A Bonds represent the first series of authorized bonds to be issued under the 2018 Authorization and will be issued to finance authorized projects. See "−Application and Investment of Series A Bond Proceeds" herein.

Refunding Bonds.

On July 28, 2010, the District issued its 2010 General Obligation Refunding Bonds (the "2010 Refunding Bonds") in the aggregate principal amount of $18,740,000, to refund on a current basis, a portion of the then-outstanding Series 2002A Bonds. None of the Series 2002A Bonds remain outstanding.

On July 18, 2012, the District issued its 2012 General Obligation Refunding Bonds (the "2012 Refunding Bonds") in the aggregate principal amount of $21,260,000, to refund (i) the Series 2002B Bonds maturing on August 1 in the years 2014 through 2024, inclusive, and 2027, (ii) the Series 2002C Bonds maturing on August 1 in the years 2014 through 2028, inclusive, and (iii) the Series 2002D Bonds maturing on August 1 in the years 2016 through 2023, inclusive. None of the Series 2002B Bonds and Series 2002C Bonds remain outstanding.

On December 16, 2014, the District issued its 2014 General Obligation Refunding Bonds (the "2014 Refunding Bonds") in the aggregate principal amount of $93,170,000, to refund (i) the Series 2002D Bonds maturing on August 1 in the years 2024, 2025 and 2029, (ii) the Series 2002E Bonds maturing on August 1 in the years 2016 through 2030, inclusive, and (iii) a portion of the Series 2006A Bonds maturing on August 1 in the years 2016 through 2028, inclusive, and 2032 and 2037, and (iv) a portion of the Series 2006B Bonds maturing on August 1 in the years 2017 through 2019, inclusive, 2021, 2022, 2024, 2025 through 2028, inclusive, 2030, 2031, 2032, 2037 and 2038. None of the Series 2002D Bonds, Series 2002E Bonds, Series 2006A Bonds and Series 2006B Bonds remain outstanding.

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Aggregate Debt Service

The following table sets forth the annual aggregate debt service requirements of all outstanding bonds of the District, including the Series A Bonds, assuming no early redemptions.

HEMET UNIFIED SCHOOL DISTRICT
(Riverside County, California)
General Obligation Bonds – Aggregate Debt Service

Period Ending August 1,	2010 Refunding Bonds	2012 Refunding Bonds	2014 Refunding Bonds	Series 2012A Bonds	Series A Bonds	Aggregate Total Debt Service
2019	$ 1,686,206.26	$ 1,937,375.00	$ 6,419,831.26	$ 2,397,168.76	$ 452,196.35	$ 12,892,777.63
2020	1,682,206.26	1,929,400.00	6,429,081.26	2,479,418.76	1,570,262.50	14,090,368.78
2021	1,687,756.26	1,948,400.00	6,405,581.26	2,561,418.76	2,104,262.50	14,707,418.78
2022	1,684,956.26	1,947,400.00	6,400,581.26	2,652,918.76	970,262.50	13,656,118.78
2023	1,685,156.26	1,956,525.00	6,407,831.26	2,743,168.76	970,262.50	13,762,943.78
2024	1,688,156.26	1,655,187.50	6,716,331.26	2,836,918.76	970,262.50	13,866,856.28
2025	1,685,043.76	1,660,500.00	6,720,731.26	2,933,668.76	970,262.50	13,970,206.28
2026	1,682,450.00	1,662,400.00	6,728,531.26	3,037,918.76	970,262.50	14,081,562.52
2027	-	1,675,762.50	6,737,881.26	3,157,718.76	970,262.50	12,541,625.02
2028	-	689,937.50	6,738,031.26	3,280,518.76	1,305,262.50	12,013,750.02
2029	-	-	6,744,131.26	3,426,143.76	1,497,725.00	11,668,000.02
2030	-	-	6,350,381.26	3,540,518.76	1,655,687.50	11,546,587.52
2031	-	-	5,940,231.26	3,666,781.26	1,633,062.50	11,240,075.02
2032	-	-	5,942,231.26	3,774,381.26	1,688,812.50	11,405,425.02
2033	-	-	5,918,231.26	3,906,531.26	1,745,562.50	11,570,325.02
2034	-	-	5,941,737.50	4,032,568.76	1,809,912.50	11,784,218.76
2035	-	-	5,908,237.50	4,175,450.00	1,874,200.00	11,957,887.50
2036	-	-	5,923,800.00	4,270,200.00	1,935,400.00	12,129,400.00
2037	-	-	5,938,000.00	4,411,800.00	2,005,000.00	12,354,800.00
2038	-	-	2,288,000.00	4,557,200.00	2,075,000.00	8,920,200.00
2039	-	-	-	4,705,800.00	2,150,200.00	6,856,000.00
2040	-	-	-	4,862,000.00	2,225,200.00	7,087,200.00
2041	-	-	-	-	2,299,800.00	2,299,800.00
2042	-	-	-	-	2,383,800.00	2,383,800.00
2043	-	-	-	-	2,466,600.00	2,466,600.00
2044	-	-	-	-	2,553,000.00	2,553,000.00
2045	-	-	-	-	2,642,600.00	2,642,600.00
2046	-	-	-	-	2,730,000.00	2,730,000.00
Total:	$13,481,931.32	$17,062,887.50	$122,599,393.90	$77,410,212.66	$48,625,121.35	$279,179,546.73

Source: Fieldman, Rolapp & Associates, Inc.

SECURITY AND SOURCE OF PAYMENT FOR THE SERIES A BONDS

General

In order to provide sufficient funds for repayment of principal and interest when due on the Series A Bonds, the Board of Supervisors of the County is empowered and is obligated to levy *ad valorem* taxes upon all property subject to taxation by the District, without limitation as to rate or amount (except as to certain personal property which is taxable at limited rates). Such taxes are in addition to other taxes levied upon property within the District. When collected, the tax revenues will be deposited by the County in the Interest and Sinking Fund of the District, which is required to be maintained by the County and to be used solely for the payment of bonds of the District.

The Series A Bonds are payable from *ad valorem* taxes to be levied within the District pursuant to the California Constitution and other State law, and are not a debt or obligation of the County. No fund of the County is pledged or obligated to repayment of the Series A Bonds.

Statutory Lien on Taxes (Senate Bill 222)

Pursuant to Section 53515 of the California Government Code (which became effective on January 1, 2016), all general obligation bonds issued by local agencies, including refunding bonds, will be secured by a statutory lien on all revenues received pursuant to the levy and collection of the tax. Section 53515 provides that the lien will automatically arise, without the need for any action or authorization by the local agency or its governing board, and will be valid and binding from the time the bonds are executed and delivered. Section 53515 further provides that the revenues received pursuant to the levy and collection of the tax will be immediately subject to the lien, and the lien will immediately attach to the revenues and be effective, binding and enforceable against the local agency, its successor, transferees and creditors, and all others asserting rights therein, irrespective of whether those parties have notice of the lien and without the need for physical delivery, recordation, filing or further act.

Pledge of Tax Revenues

The District has pledged all revenues from the property taxes collected from the levy by the Board of Supervisors of the County for the payment of all bonds, including the Series A Bonds (collectively, the "Bonds"), of the District heretofore or hereafter issued pursuant to voter approved measures of the District and amounts on deposit in the Interest and Sinking Fund of the District to the payment of the principal or redemption price of and interest on the Bonds. The Resolution provides that the property taxes and amounts held in the Interest and Sinking Fund shall be immediately subject to this pledge, and the pledge shall constitute a lien and security interest which shall immediately attach to the property taxes and amounts held in the Interest and Sinking Fund to secure the payment of the Bonds and shall be effective, binding, and enforceable against the District, its successors, creditors and all others irrespective of whether those parties have notice of the pledge and without the need of any physical delivery, recordation, filing, or further act. The Resolution provides that this pledge constitutes an agreement between the District and the owners of Bonds to provide security for the Bonds in addition to any statutory lien that may exist, and the Bonds secured by the pledge are or were issued to finance (or refinance) one or more of the projects specified in the applicable voter-approved measure.

Property Taxation System

Property tax revenues result from the application of the appropriate tax rate to the total assessed value of taxable property in the District. School districts receive property taxes for payment of voter-approved bonds as well as for general operating purposes.

Local property taxation is the responsibility of various county officers. For each school district located in a county, the county assessor computes the value of locally assessed taxable property. Based on the assessed value of property and the scheduled debt service on outstanding bonds in each year, the county auditor-controller computes the rate of tax necessary to pay such debt service, and presents the tax rolls (including rates of tax for all taxing jurisdictions in the county) to the county board of supervisors for approval. The county treasurer-tax collector prepares and mails tax bills to taxpayers and collects the taxes. In addition, the county treasurer-tax collector, the superintendent of schools of which has jurisdiction over the school district holds school district funds, including taxes collected for payment of school bonds, and is charged with payment of principal and interest on the bonds when due, as ex officio treasurer of the school district.

Assessed Valuation of Property Within the District

Taxable property located in the District has a fiscal year 2018-19 assessed value of $11,096,318,956. All property (real, personal and intangible) is taxable unless an exemption is granted by the California Constitution or United States law. Under the State Constitution, exempt classes of property include household and personal effects, intangible personal property (such as bank accounts, stocks and bonds), business inventories, and property used for religious, hospital, scientific and charitable purposes. The State Legislature may create additional exemptions for personal property, but not for real property. Most taxable property is assessed by the assessor of the county in which the property is located. Some special classes of property are assessed by the State Board of Equalization, as described below.

Taxes are levied for each fiscal year on taxable real and personal property assessed as of the preceding January 1, at which time the lien attaches. The assessed value is required to be adjusted during the course of the year when property changes ownership or new construction is completed. State law also affords an appeal procedure to taxpayers who disagree with the assessed value of any property. When necessitated by changes in assessed value during the course of a year, a supplemental assessment is prepared so that taxes can be levied on the new assessed value before the next regular assessment roll is completed. See "*−Appeals of Assessed Valuation; Blanket Reductions of Assessed Values*" below.

Under the State Constitution, the State Board of Equalization assesses property of State-regulated transportation and communications utilities, including railways, telephone and telegraph companies, and companies transmitting or selling gas or electricity. The Board of Equalization also is required to assess pipelines, flumes, canals and aqueducts lying within two or more counties. The value of property assessed by the Board of Equalization is allocated by a formula to local jurisdictions in the county, including school districts, and taxed by the local county tax officials in the same manner as for locally assessed property. Taxes on privately owned railway cars, however, are levied and collected directly by the Board of Equalization. Property used in the generation of electricity by a company that does not also transmit or sell that electricity is taxed locally instead of by the Board of Equalization. Thus, the reorganization of regulated utilities and the transfer of electricity-generating property to non-utility companies, as often occurred under electric power deregulation in California, affects how those assets are assessed, and which local agencies benefit from the property taxes derived. In general, the transfer of State-assessed property located in the District to non-utility companies will increase the assessed value of property in the District, since the property's value will no longer be divided among all taxing jurisdictions in the County. The transfer of property located and taxed in the District to a State-assessed utility will have the opposite effect: generally reducing the assessed value in the District, as the value is shared among the other jurisdictions in the County. The District is unable to predict future transfers of State-assessed property in the District and the County, the impact of such transfers on its utility property tax revenues, or whether future legislation or litigation may affect ownership of utility assets, the State's methods of assessing utility property, or the method by which tax revenues of utility property is allocated to local taxing agencies, including the District.

Locally taxed property is classified either as "secured" or "unsecured," and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State-assessed property and property (real or personal) for which there is a lien on real property sufficient, in the opinion of the county assessor, to secure payment of the taxes. All other property is "unsecured," and is assessed on the "unsecured roll." Secured property assessed by the State Board of Equalization is commonly identified for taxation purposes as "utility" property.

The following table sets forth the assessed valuation of the various classes of property in the District's boundaries from fiscal year 2011-12 through 2018-19.

HEMET UNIFIED SCHOOL DISTRICT
(Riverside County, California)
Assessed Valuations
Fiscal Years 2011-12 through 2018-19

Fiscal Year Ending	Local Secured	Utility	Unsecured	Total Valuation
2011-12	$ 8,032,491,037	$ 395,741	$206,274,012	$ 8,239,160,790
2012-13	7,897,858,168	284,140	214,524,088	8,112,666,396
2013-14	8,262,669,454	284,140	198,231,265	8,461,184,859
2014-15	8,855,047,829	284,140	182,274,579	9,037,606,548
2015-16	9,168,277,185	284,140	199,202,375	9,367,763,700
2016-17	9,660,507,844	284,140	190,889,434	9,851,681,418
2017-18	10,205,455,774	284,140	196,166,562	10,401,906,476
2018-19	10,845,633,349	1,606,318	249,079,289	11,096,318,956

Source: California Municipal Statistics, Inc.

According to the California Department of Forestry and Fire Protection and U.S. Forest Service of San Bernardino National Forest, in July and August 2018, wildfires burned approximately 13,139 acres of land in the County. The District estimates that 12 buildings within the District's boundaries were destroyed and five additional buildings within the District's boundaries were damaged as a result of such fire. The District cannot predict when such structures will be restored and/or rebuilt. No property of the District's was damaged or destroyed as a result of such fire. The assessed value of property within the District set forth above does not reflect the impact of such fires and the damage caused thereby though the District does not expect the extent of the damage caused by such fire to have a material impact on the assessed valuation of the District.

Assessments may be adjusted during the course of the year when real property changes ownership or new construction is completed. Assessments may also be appealed by taxpayers seeking a reduction as a result of economic and other factors beyond the District's control, such as a general market decline in property values, reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by State and local agencies and property used for qualified educational, hospital, charitable or religious purposes), or the complete or partial destruction of taxable property caused by natural or manmade disaster, such as earthquake, drought, flood, fire, toxic dumping, etc. When necessitated by changes in assessed value in the course of a year, taxes are pro-rated for each portion of the tax year. See also *"−Appeals of Assessed Valuation; Blanket Reductions of Assessed Values"* below.

Appeals of Assessed Valuation; Blanket Reductions of Assessed Values. There are two basic types of property tax assessment appeals provided for under State law. The first type of appeal, commonly referred to as a base year assessment appeal, involves a dispute on the valuation assigned by the assessor immediately subsequent to an instance of a change in ownership or completion of new construction. If the base year value assigned by the assessor is reduced, the valuation of the property cannot increase in subsequent years more than 2% annually unless and until another change in ownership and/or additional new construction or reconstruction activity occurs.

The second type of appeal, commonly referred to as a Proposition 8 appeal (which Proposition 8 was approved by the voters in 1978), can result if factors occur causing a decline in the market value of the property to a level below the property's then current taxable value (escalated base year value). Pursuant to State law, a property owner may apply for a Proposition 8 reduction of the property tax assessment for such owner's property by filing a written application, in the form prescribed by the State Board of Equalization, with the appropriate county board of equalization or assessment appeals board. A property owner desiring a Proposition 8 reduction of the assessed value of such owner's property in any one year must submit an application to the county assessment appeals board (the "Appeals Board"). Following a review of the application by the county assessor's office, the county assessor may offer to the property owner the opportunity to stipulate to a reduced assessment, or may confirm the assessment. If no stipulation is agreed to, and the applicant elects to pursue the appeal, the matter is brought before the Appeals Board (or, in some cases, a hearing examiner) for a hearing and decision. The Appeals Board generally is required to determine the outcome of appeals within two years of each appeal's filing date. Any reduction in the assessment ultimately granted applies only to the year for which application is made and during which the written application is filed. The assessed value increases to its pre-reduction level (such pre-reduction level escalated by the annual inflation rate of no more than 2%) following the year for which the reduction application is filed. However, the county assessor has the power to grant a reduction not only for the year for which application was originally made, but also for the then current year and any intervening years as well. In practice, such a reduced assessment may and often does remain in effect beyond the year in which it is granted.

In addition, Article XIIIA of the State Constitution provides that the full cash value base of real property used in determining taxable value may be adjusted from year to year to reflect the inflationary rate, not to exceed a 2% increase for any given year, or may be reduced to reflect a reduction in the consumer price index or comparable local data. This measure is computed on a calendar year basis. According to representatives of the County assessor's office, the County has in the past, pursuant to Article XIIIA of the State Constitution, ordered blanket reductions of assessed property values and corresponding property tax bills on single family residential properties when the value of the property has declined below the current assessed value as calculated by the County.

No assurance can be given that property tax appeals and/or blanket reductions of assessed property values will not significantly reduce the assessed valuation of property within the District in the future.

See APPENDIX A – "INFORMATION RELATING TO THE DISTRICT'S OPERATIONS AND BUDGET – CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS – Limitations on Revenues" for a discussion of other limitations on the valuation of real property with respect to *ad valorem* taxes.

Bonding Capacity. As a unified school district, the District may issue bonds in an amount up to 2.50% of the assessed valuation of taxable property within its boundaries. The District's fiscal year 2018-19 gross bonding capacity (also commonly referred to as the "bonding limit" or "debt limit") is approximately $277.41 million and its net bonding capacity is approximately $118.86 million (taking into account current outstanding debt before issuance of the Series A Bonds). Refunding bonds may be issued without regard to this limitation; however, once issued, the outstanding principal of any refunding bonds is included when calculating the District's bonding capacity.

Assessed Valuation by Jurisdiction. The following table describes the percentage and value of the total assessed valuation of the property within the District's boundaries that reside in the City of Hemet, City of San Jacinto and unincorporated portions of the County for fiscal year 2018-19.

HEMET UNIFIED SCHOOL DISTRICT
(Riverside County, California)
2018-19 Assessed Valuation by Jurisdiction

Jurisdiction	Assessed Valuation in District	% of District	Assessed Valuation of Jurisdiction	% of Jurisdiction in District
City of Hemet	$ 5,769,185,746	51.99%	$ 5,944,312,276	97.05%
City of San Jacinto	294,553,052	2.65	3,054,496,507	9.64
Unincorporated Riverside County	5,032,580,158	45.35	43,011,850,793	11.70
Total District	$11,096,318,956	100.00%		
Riverside County	$11,096,318,956	100.00%	$280,327,986,244	3.96%

Source: California Municipal Statistics, Inc.

Assessed Valuation by Land Use. The following table sets forth a distribution of taxable property located in the District on the fiscal year 2018-19 tax roll by principal purpose for which the land is used, and the assessed valuation and number of parcels for each use.

HEMET UNIFIED SCHOOL DISTRICT
(Riverside County, California)
2018-19 Assessed Valuation and Parcels by Land Use

	2018-19 Assessed Valuation[1]	% of Total	No. of Parcels	% of Total
Non-Residential:				
Agricultural/Rural	$ 260,403,406	2.40%	1,200	1.88%
Commercial/Industrial	1,589,362,845	14.65	1,774	2.78
Vacant Commercial/Industrial	186,721,972	1.72	732	1.15
Vacant Unclassified	114,710,610	1.06	3,552	5.56
Miscellaneous	10,387,826	0.10	75	0.12
Subtotal Non-Residential	$2,161,586,659	19.93%	7,333	11.49%
Residential:				
Single Family Residence	$6,645,324,129	61.27%	32,714	51.25%
Condominium/Townhouse	64,920,794	0.60	690	1.08
Mobile Homes/Lots	1,024,634,041	9.45	13,550	21.23
2-3 Residential Units	215,427,724	1.99	924	1.45
4+ Residential Units/Apartments	349,156,349	3.22	527	0.83
Vacant Residential	384,583,653	3.55	8,099	12.69
Subtotal Residential	$8,684,046,690	80.07%	56,504	88.51%
TOTAL	$10,845,633,349	100.00%	63,837	100.00%

(1) Local secured assessed valuation, excluding tax-exempt property.
Source: California Municipal Statistics, Inc.

Assessed Valuation of Single-Family Homes. The following table sets forth the assessed valuation of single-family homes in the District's boundaries for fiscal year 2018-19.

HEMET UNIFIED SCHOOL DISTRICT
(Riverside County, California)
2018-19 Per Parcel Assessed Valuation of Single Family Homes

	Number of Parcels	2018-19 Assessed Valuation	Average Assessed Valuation	Median Assessed Valuation
Single Family Residential	32,714	$6,645,324,129	$203,134	$188,700

2018-19 Assessed Valuation	No. of Parcels[(1)]	% of Total	Cumulative % of Total	Total Valuation	% of Total	Cumulative % of Total
$0 - $24,999	72	0.220%	0.220%	$ 1,177,290	0.018%	0.018%
$25,000 - $49,999	570	1.742	1.962	23,553,410	0.354	0.372
$50,000 - $74,999	1,724	5.270	7.232	109,082,601	1.641	2.014
$75,000 - $99,999	2,357	7.205	14.437	206,957,081	3.114	5.128
$100,000 - $124,999	2,942	8.993	23.430	333,364,043	5.017	10.144
$125,000 - $149,999	3,230	9.873	33.304	445,083,340	6.698	16.842
$150,000 - $174,999	3,566	10.901	44.204	578,915,691	8.712	25.554
$175,000 - $199,999	3,315	10.133	54.338	620,568,416	9.338	34.892
$200,000 - $224,999	2,926	8.944	63.282	620,827,813	9.342	44.235
$225,000 - $249,999	2,954	9.030	72.312	701,370,504	10.554	54.789
$250,000 - $274,999	2,431	7.431	79.743	636,860,317	9.584	64.372
$275,000 - $299,999	1,994	6.095	85.838	571,223,221	8.596	72.968
$300,000 - $324,999	1,471	4.497	90.334	457,550,861	6.885	79.854
$325,000 - $349,999	923	2.821	93.156	310,196,088	4.668	84.522
$350,000 - $374,999	525	1.605	94.761	189,830,469	2.857	87.378
$375,000 - $399,999	389	1.189	95.950	150,799,740	2.269	89.647
$400,000 - $424,999	311	0.951	96.900	127,942,498	1.925	91.573
$425,000 - $449,999	217	0.663	97.564	94,686,846	1.425	92.998
$450,000 - $474,999	163	0.498	98.062	75,164,174	1.131	94.129
$475,000 - $499,999	111	0.339	98.401	53,932,175	0.812	94.940
$500,000 and greater	523	1.599	100.000	336,237,551	5.060	100.000
Total	32,714	100.000%		$6,645,324,129	100.000%	

(1) Improved single family residential parcels. Excludes condominiums and parcels with multiple family units.
Source: California Municipal Statistics, Inc.

Largest Taxpayers in District. The following table sets forth the 20 taxpayers with the greatest combined ownership of taxable property in the District on the fiscal year 2018-19 tax roll, and the assessed valuation of all property owned by those taxpayers in all taxing jurisdictions within the District, are set forth below.

HEMET UNIFIED SCHOOL DISTRICT
(Riverside County, California)
Largest 2018-19 Local Secured Taxpayers

	Property Owner	Primary Land Use	2018-19 Assessed Valuation	Percent of Total[(1)]
1.	PHH Real Estate	Commercial	$46,692,246	0.43%
2.	Freedom Prop Hemet	Hotel	43,719,788	0.40
3.	Granite Village West LP	Shopping Center	38,049,576	0.35
4.	CBYW Hemet	Rest Home	37,204,500	0.34
5.	Wal-Mart Real Estate Business Trust	Commercial	34,547,697	0.32
6.	MCS Hemet Valley Center	Shopping Center	34,263,243	0.32
7.	FFLP CC	Commercial	31,939,631	0.29
8.	James J. Femino	Commercial	31,861,221	0.29
9.	Hensley Prop	Apartments	21,128,310	0.19
10.	Amberwood Villa 17	Apartments	20,842,656	0.19
11.	Jianna Prop Inc.	Shopping Center	20,437,412	0.19
12.	Essex JMS Acquisition	Apartments	19,202,680	0.18
13.	Walgreen Co.	Commercial	18,107,811	0.17
14.	Latham Management & Consulting Services	Commercial	17,852,621	0.16
15.	Golden Harbor Estate	Residential Properties	15,890,421	0.15
16.	SIC Leed Civic Plaza	Commercial	15,613,961	0.14
17.	Winco Foods	Commercial	15,209,043	0.14
18.	Rich Alvarado	Commercial	15,054,890	0.14
19.	Bartoli Inv	Commercial	14,825,074	0.14
20.	NHI REIT of Next House	Rest Home	14,675,933	0.14
			$507,118,714	4.68%

[(1)] 2018-19 local secured assessed valuation: $10,845,633,349
Source: California Municipal Statistics, Inc.

The more property (by assessed value) owned by a single taxpayer, the more tax collections are exposed to weakness, if any, in such taxpayer's financial situation and ability or willingness to pay property taxes in a timely manner. Furthermore, assessments may be appealed by taxpayers seeking a reduction as a result of economic and other factors beyond the District's control. See *"−Appeals of Assessed Valuation; Blanket Reductions of Assessed Values"* above.

Tax Rates

The State Constitution permits the levy of an *ad valorem* tax on taxable property not to exceed 1% of the full cash value of the property, and State law requires the full 1% tax to be levied. The levy of special *ad valorem* property taxes in excess of the 1% levy is permitted as necessary to provide for debt service payments on school bonds and other voter-approved indebtedness.

The rate of tax necessary to pay fixed debt service on the Series A Bonds in a given year depends on the assessed value of taxable property in that year. (The rate of tax imposed on unsecured property for repayment of the Series A Bonds is based on the prior year's secured property tax rate.) Economic and other factors beyond the District's control, such as a general market decline in property values, reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by State and local agencies and property used for qualified educational, hospital, charitable or religious purposes), or the complete or partial destruction of taxable property caused by natural or manmade disaster, such as earthquake, flood, fire, toxic dumping, etc., could cause a reduction in the assessed value of taxable property within the District and necessitate a corresponding increase in the annual tax rate to be levied to pay the principal of and interest on the Series A Bonds. Issuance of additional authorized bonds in the future might also cause the tax rate to increase.

Typical Tax Rate Area. The following table sets forth *ad valorem* property tax rates for the last five fiscal years in a typical Tax Rate Area of the District (TRA 6-001). This Tax Rate Area comprises approximately 5.11% of the total assessed value of the District for fiscal year 2018-19.

HEMET UNIFIED SCHOOL DISTRICT
(Riverside County, California)
Typical Total Tax Rates per $100 of Assessed Valuation (TRA 6-001)
Fiscal Years 2014-15 through 2018-19

	2014-15	2015-16	2016-17	2017-18	2018-19
General Tax Rate	1.00000%	1.00000%	1.00000%	1.00000%	1.00000%
Hemet Unified School District	0.11991	0.13729	0.12409	0.11019	0.10173
Mount San Jacinto Community College District	-	0.01394	0.01320	0.01320	0.01320
Metropolitan Water District	0.00350	0.00350	0.00350	0.00350	0.00350
Total	1.12341%	1.15473%	1.14079%	1.12689%	1.11843%

Source: California Municipal Statistics, Inc.

In accordance with the California Constitution and the Education Code, bonds approved pursuant to the 2018 Authorization may not be issued unless the District projects that repayment of all outstanding bonds approved under the 2018 Authorization will require a tax rate no greater than $60.00 per $100,000 of assessed value. Based on the assessed value of taxable property in the District at the time of issuance of the Series A Bonds, the District projects that the maximum tax rate required to repay the Series A Bonds and all other outstanding bonds approved at the 2018 Authorization will be within that legal limit. The tax rate limitation applies only when new bonds are issued and does not restrict the authority of the County Board of Supervisors to levy taxes at such rate as may be necessary to pay debt service on the Series A Bonds and any other series of bonds issued under the 2018 Authorization in each year.

Tax Charges and Delinquencies

A school district's share of the 1% countywide tax is based on the actual allocation of property tax revenues to each taxing jurisdiction in the county in fiscal year 1978-79, as adjusted according to a complicated statutory process enacted since that time. Revenues derived from special *ad valorem* taxes for voter-approved indebtedness, including the Series A Bonds, are reserved to the taxing jurisdiction that approved and issued the debt, and may only be used to repay that debt.

The county treasurer-tax collector prepares the property tax bills. Property taxes on the regular secured assessment roll are due in two equal installments: the first installment is due on November 1, and becomes delinquent after December 10. The second installment is due on February 1 and becomes delinquent after April 10. If taxes are not paid by the delinquent date, a 10% penalty attaches and a $10 cost is added to unpaid second installments. If taxes remain unpaid by June 30, the tax is deemed to be in default, and a $15 state redemption fee applies. Interest then begins to accrue at the rate of 1.5% per month. The property owner has the right to redeem the property by paying the taxes, accrued penalties, and costs within five years of the date the property went into default. If the property is not redeemed within five years, it is subject to sale at a public auction by the county treasurer-tax collector

Property taxes on the unsecured roll are due in one payment on the lien date, January 1, and become delinquent after August 31. A 10% penalty attaches to delinquent taxes on property on the unsecured roll, and an additional penalty of 1.5% per month begins to accrue on November 1. To collect unpaid taxes, the county treasurer-tax collector may obtain a judgment lien upon and cause the sale of all property owned by the taxpayer in the county, and may seize and sell personal property, improvements and possessory interests of the taxpayer. The county treasurer-tax collector may also bring a civil suit against the taxpayer for payment.

The date on which taxes on supplemental assessments are due depends on when the supplemental tax bill is mailed.

The following table sets forth real property tax charges and corresponding delinquencies with respect to the property located in the District for fiscal years 2013-14 through 2017-18.

HEMET UNIFIED SCHOOL DISTRICT
(Riverside County, California)
Secured Tax Charges and Delinquencies
Fiscal Years 2013-14 through 2017-18

Fiscal Year	Secured Tax Charge[1]	Amount Delinquent June 30	Percent Delinquent June 30
2013-14	$10,070,902.67	$309,185.97	3.07%
2014-15	10,399,504.21	244,600.17	2.35
2015-16	12,345,610.21	300,951.64	2.44
2016-17	11,770,643.24	272,122.85	2.31
2017-18	11,066,278.85	269,131.95	2.43

(1) District's general obligation bond debt service levy only.
Source: California Municipal Statistics, Inc.

Teeter Plan. The County has adopted the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "Teeter Plan"), as provided for in Section 4701 and following of the California Revenue and Taxation Code. Under the Teeter Plan, each participating local agency levying property taxes in the County, including school districts, receives the full amount of uncollected taxes credited to its fund (including delinquent taxes, if any), in the same manner as if the full amount due from taxpayers had been collected. In return, the County receives and retains delinquent payments, penalties and interest as collected, that would have been due the local agency. The County applies the Teeter Plan to taxes levied for repayment of school district bonds.

The Teeter Plan is to remain in effect unless the board of supervisors of a county orders its discontinuance or unless, prior to the commencement of any fiscal year of a county (which commences on July 1), the board of supervisors receives a petition for its discontinuance from two-thirds of the participating revenue districts in such county. The board of supervisors may also, after holding a public hearing on the matter, discontinue the Teeter Plan with respect to any tax levying agency or assessment levying agency in such county if the rate of secured tax delinquency in that agency in any year exceeds 3% of the total of all taxes and assessments levied on the secured roll in that agency. The District is not aware of any plans by the Board of Supervisors of the County to discontinue the Teeter Plan.

Direct and Overlapping Debt

Set forth on the following page is a schedule of direct and overlapping debt prepared by California Municipal Statistics Inc. effective November 20, 2018 for debt outstanding as of December 1, 2018. The table is included for general information purposes only. The District has not reviewed this table for completeness or accuracy and makes no representations in connection therewith. The first column in the table names each public agency which has outstanding debt as of the date of the schedule and whose territory overlaps the District in whole or in part. Column two sets forth the percentage of each overlapping agency's assessed value located within the boundaries of the District. This percentage, multiplied by the total outstanding debt of each overlapping agency (which is not set forth in the table) produces the amount set forth in column three, which is the apportionment of each overlapping agency's outstanding debt to taxable property in the District.

The schedule generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the District. Such long-term obligations generally are not payable from revenues of the District (except as indicated) nor are they necessarily obligations secured by land within the District. In many cases, long-term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency.

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HEMET UNIFIED SCHOOL DISTRICT
(Riverside County, California)
Statement of Direct and Overlapping Bonded Debt

November 20, 2018

2018-19 Assessed Valuation: $11,096,318,956

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable[1]	Debt 12/1/18
Metropolitan Water District	0.301%	$182,432
Mount San Jacinto Community College District	12.172	21,014,958
Hemet Unified School District	100.000	158,550,000[1]
Eastern Municipal Water District Improvement Districts	1.922-100.000	1,256,472
Riverside County Flood Control District Zone No. 4	19.374	2,846,041
City of Hemet Community Facilities District No. 1999-1	100.000	7,110,000
Hemet Unified School District Community Facilities Districts	100.000	25,780,000
Eastern Municipal Water District Community Facilities Districts	57.545-100.000	24,536,874
Riverside County Community Facilities District No. 03-1	49.988	5,683,636
Riverside County Assessment District No. 168	100.000	1,130,000
Lake Hemet Municipal Water District 1915 Act Bonds	100.000	1,135,000
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$249,225,413
DIRECT AND OVERLAPPING GENERAL FUND DEBT:		
Riverside County General Fund Obligations	3.958%	$30,799,585
Riverside County Pension Obligation Bonds	3.958	10,542,727
Hemet Unified School District Certificates of Participation	100.000	50,580,000
City of San Jacinto Pension Fund Obligation Bonds	9.643	72,573
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT=		$91,994,885
Less: Riverside county supported obligations		132,724
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT		$91,862,161
OVERLAPPING TAX INCREMENT DEBT (Successor Agencies):		$22,660,730
GROSS COMBINED TOTAL DEBT		$363,881,028[2]
NET COMBINED TOTAL DEBT		$363,748,304

Ratios to 2018-19 Assessed Valuation:

Direct Debt ($158,550,000)..1.43%
Total Direct and Overlapping Tax and Assessment Debt................2.25%
Combined Direct Debt ($209,130,000) 1.88%
Gross Combined Total Debt..3.28%
Net Combined Total Debt..3.28%

Ratios to Redevelopment Incremental Valuation ($1,788,441,505):

Total Overlapping Tax Increment Debt...1.27%

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(1) Excludes the Series A Bonds.
(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations. Qualified Zone Academy Bonds are included based on principal due at maturity.
Source: California Municipal Statistics, Inc.

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Series A Bonds, AGM will issue its Policy for the Series A Bonds. The Policy guarantees the scheduled payment of principal of and interest on the Series A Bonds when due as set forth in the form of the Policy included as Appendix H to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Assured Guaranty Municipal Corp.

AGM is a New York domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. ("AGL"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO." AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, infrastructure and structured finance markets. Neither AGL nor any of its shareholders or affiliates, other than AGM, is obligated to pay any debts of AGM or any claims under any insurance policy issued by AGM.

AGM's financial strength is rated "AA" (stable outlook) by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"), "AA+" (stable outlook) by Kroll Bond Rating Agency, Inc. ("KBRA") and "A2" (stable outlook) by Moody's Investors Service, Inc. ("Moody's"). Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM's long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AGM on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Current Financial Strength Ratings

On December 21, 2018, KBRA announced it had affirmed AGM's insurance financial strength rating of "AA+" (stable outlook). AGM can give no assurance as to any further ratings action that KBRA may take.

On June 26, 2018, S&P announced it had affirmed AGM's financial strength rating of "AA" (stable outlook). AGM can give no assurance as to any further ratings action that S&P may take.

On May 7, 2018, Moody's announced it had affirmed AGM's insurance financial strength rating of "A2" (stable outlook). AGM can give no assurance as to any further ratings action that Moody's may take.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

Capitalization of AGM

At September 30, 2018:

- The policyholders' surplus of AGM was approximately $2,203 million.

- The contingency reserves of AGM and its indirect subsidiary Municipal Assurance Corp. ("MAC") (as described below) were approximately $1,187 million. Such amount includes 100% of AGM's contingency reserve and 60.7% of MAC's contingency reserve.

- The net unearned premium reserves and net deferred ceding commission income of AGM and its subsidiaries (as described below) were approximately $1,863 million. Such amount includes (i) 100% of the net unearned premium reserve and deferred ceding commission income of AGM, (ii) the consolidated net unearned premium reserves and net deferred ceding commissions of AGM's wholly owned subsidiary Assured Guaranty (Europe) plc ("AGE"), and (iii) 60.7% of the net unearned premium reserve of MAC.

The policyholders' surplus of AGM and the contingency reserves, net unearned premium reserves and deferred ceding commission income of AGM and MAC were determined in accordance with statutory accounting principles. The net unearned premium reserves and net deferred ceding commissions of AGE were determined in accordance with accounting principles generally accepted in the United States of America.

Incorporation of Certain Documents by Reference

Portions of the following documents filed by AGL with the Securities and Exchange Commission (the "SEC") that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

(i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2017 (filed by AGL with the SEC on February 23, 2018);

(ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2018 (filed by AGL with the SEC on May 4, 2018);

(iii) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2018 (filed by AGL with the SEC on August 2, 2018); and

(iv) the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2018 (filed by AGL with the SEC on November 9, 2018).

All consolidated financial statements of AGM and all other information relating to AGM included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, excluding Current Reports or portions thereof "furnished" under Item 2.02 or Item 7.01 of Form 8-K, after the filing of the last document referred to above and before the termination of the offering of the Series A Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at

http://www.sec.gov, at AGL's website at **http://www.assuredguaranty.com**, or will be provided upon request to Assured Guaranty Municipal Corp.: 1633 Broadway, New York, New York 10019, Attention: Communications Department (telephone (212) 974-0100). Except for the information referred to above, no information available on or through AGL's website shall be deemed to be part of or incorporated in this Official Statement.

Any information regarding AGM included herein under the caption "BOND INSURANCE – Assured Guaranty Municipal Corp." or included in a document incorporated by reference herein (collectively, the "AGM Information") shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

Miscellaneous Matters

AGM makes no representation regarding the Series A Bonds or the advisability of investing in the Series A Bonds. In addition, AGM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AGM supplied by AGM and presented under the heading "BOND INSURANCE."

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, bond counsel to the District ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Series A Bonds is not a specific preference item for purposes of the federal alternative minimum tax. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix C hereto.

To the extent the issue price of any maturity of the Series A Bonds is less than the amount to be paid at maturity of such Series A Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series A Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Series A Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Series A Bonds is the first price at which a substantial amount of such maturity of the Series A Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Series A Bonds accrues daily over the term to maturity of such Series A Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Series A Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Series A Bonds. Beneficial Owners of the Series A Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series A Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Series A Bonds in the original offering to the public at the first price at which a substantial amount of such Series A Bonds is sold to the public.

Series A Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of obligations, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Series A Bonds. The District has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Series A Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Series A Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series A Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Series A Bonds may adversely affect the value of, or the tax status of interest on, the Series A Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Series A Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Series A Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Series A Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Series A Bonds. Prospective purchasers of the Series A Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel is expected to express no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Series A Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the District or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The District has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Series A Bonds ends with the issuance of the Series A Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the District or the Beneficial Owners regarding the tax-exempt status of the Series A Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the District and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the District legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Series A Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Series A Bonds, and may cause the District or the Beneficial Owners to incur significant expense.

OTHER LEGAL MATTERS

Legal Opinion

The validity of the Series A Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the District. Bond Counsel expects to deliver an opinion with respect to the Series A Bonds at the time of issuance substantially in the form set forth in Appendix C hereto. Bond Counsel, as such, undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the District by Orrick, Herrington & Sutcliffe LLP, as Disclosure Counsel to the District.

Legality for Investment in California

Under the provisions of the California Financial Code, the Series A Bonds are legal investments for commercial banks in California to the extent that the Series A Bonds, in the informed opinion of the bank, are prudent for the investment of funds of depositors, and, under provisions of the California Government Code, the Series A Bonds are eligible securities for deposit of public moneys in the State.

Continuing Disclosure

The District has covenanted for the benefit of the holders and Beneficial Owners of the Series A Bonds to provide, or to cause to be provided, to the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access system or such other electronic system designated by the Municipal Securities Rulemaking Board (the "EMMA System") certain annual financial information and operating data relating to the District (the "Annual Report") by not later than nine months following the end of the District's fiscal year (currently ending June 30), commencing with the report for the 2018-19 fiscal year (which is due no later than March 31, 2020) and notice of the occurrence of certain enumerated events ("Notice Events") in a timely manner not in excess of ten business days after the occurrence of such a Notice Event. The specific nature of the information to be contained in the Annual Report and the notices of Notice Events is set forth in APPENDIX D − "FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the Initial Purchaser in complying with Rule 15c2-12(b)(5) (the "Rule") of the Securities and Exchange Commission (the "SEC").

In the past five years with respect to the District's prior continuing disclosure undertakings, the District failed to timely file certain of its annual reports and audited financial statements and certain annual reports when filed were not complete.

In order to assist the District in complying with its continuing disclosure obligations, the District has engaged Fieldman, Rolapp & Associates, Inc. doing business as Applied Best Practices as its dissemination agent.

Litigation

No litigation is pending or threatened concerning or contesting the validity of the Series A Bonds or the District's ability to receive *ad valorem* taxes and to collect other revenues, or contesting the District's ability to issue and retire the Series A Bonds. The District is not aware of any litigation pending or threatened questioning the political existence of the District or contesting the title to their offices of District officers who will execute the Series A Bonds or District officials who will sign certifications relating to the Series A Bonds, or the powers of those offices. A certificate (or certificates) to that effect will be furnished to the Initial Purchaser at the time of the original delivery of the Series A Bonds.

The District is occasionally subject to lawsuits and claims. In the opinion of the District, the aggregate amount of the uninsured liabilities of the District under these lawsuits and claims will not materially affect the financial position or operations of the District.

MISCELLANEOUS

Ratings

S&P has assigned an underlying rating of "A" to the Series A Bonds. Rating agencies generally base their ratings on their own investigations, studies and assumptions as well as information and materials furnished to them (which may include information and materials from the District, which are not included in this Official Statement). The rating reflects only the view of the rating agency furnishing the same, and any explanation of the significance of such rating should be obtained only from the rating agency providing the same. Such rating is not a recommendation to buy, sell or hold the Series A Bonds. There is no assurance that any rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by the rating agency providing the same, if, in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of a rating may have an adverse effect on the market price of the Series A Bonds. Neither the Initial Purchaser (defined herein) nor the District has undertaken any responsibility after the offering of the Series A Bonds to assure the maintenance of the rating or to oppose any such revision or withdrawal.

In addition, S&P and Kroll Bond Rating Agency, Inc. ("KBRA") are expected to assign their ratings of "AA" and "AA+," respectively, to the Series A Bonds with the understanding that, upon delivery of the Series A Bonds, the Policy will be delivered by AGM. See "BOND INSURANCE." Such rating is expected to be assigned solely as a result of the issuance of the Policy and will reflect only the rating agency's view of the claims-paying ability and financial strength of AGM. Neither the District nor the Underwriter have made any independent investigation of the claims-paying ability of AGM and no representation is made that any insured rating of the Series A Bonds based upon the purchase of the Policy will remain higher than the rating agency's underlying rating of the Series A Bonds described above, which did not take bond insurance into account. The existence of the Policy will not, of itself, negatively affect such underlying ratings. Thus, when making an investment decision, potential investors should carefully consider the ability of the District to pay principal and interest on the Series A Bonds and the claims paying ability of AGM, particularly over the life of the investment. Without regard to any bond insurance, the Series A Bonds are payable from the proceeds of an *ad valorem* tax approved by the voters of the District pursuant to all applicable laws and constitutional requirements, and required to be levied by the County on property within the District in an amount sufficient for the timely payment of principal of and interest on the Series A Bonds. See "SECURITY AND SOURCE OF PAYMENT FOR THE SERIES A BONDS."

However, any downward revision or withdrawal of any rating of AGM may have an adverse effect on the market price or marketability of the Series A Bonds.

Professionals Involved in the Offering

Orrick, Herrington & Sutcliffe LLP is acting as Bond Counsel and Disclosure Counsel with respect to the Series A Bonds, and will receive compensation from the District contingent upon the sale and delivery of the Series A Bonds. Fieldman, Rolapp & Associates, Inc. is acting as the District's Municipal Advisor with respect to the Series A Bonds and will receive compensation from the District contingent upon the sale and delivery of the Series A Bonds.

Underwriting

The Series A Bonds were purchased by Merrill Lynch, Pierce, Fenner & Smith Incorporated (the "Initial Purchaser") as the winner of a competitive bid conducted on February 13, 2019. The Initial Purchaser has agreed to purchase the Series A Bonds at a price of $28,328,846.45. The Initial Purchaser's total discount is $301,712.50. See "THE SERIES A BONDS – Application and Investment of Series A Bond Proceeds."

The Initial Purchaser may offer and sell the Series A Bonds to certain securities dealers and dealer banks and banks acting as agent at prices lower than the public offering prices stated on the inside front cover page of this Official Statement. The public offering prices may be changed from time to time by the Initial Purchaser.

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ADDITIONAL INFORMATION

The purpose of this Official Statement is to supply information to purchasers of the Series A Bonds. Quotations from and summaries and explanations of the Series A Bonds and of the statutes and documents contained herein do not purport to be complete, and reference is made to such documents and statutes for full and complete statements of their provisions.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the District and the purchasers or Owners of any of the Series A Bonds.

The District has duly authorized the delivery of this Official Statement.

HEMET UNIFIED SCHOOL DISTRICT

By: /s/ Christi Barrett
Superintendent

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APPENDIX A

INFORMATION RELATING TO THE DISTRICT'S OPERATIONS AND BUDGET

The information in this appendix concerning the operations of the Hemet Unified School District (the "District"), the District's finances, and State of California (the "State") funding of education, is provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal of or interest on the Series A Bonds are payable from the general fund of the District or from State revenues. The Series A Bonds are payable from the proceeds of an ad valorem tax approved by the voters of the District pursuant to all applicable laws and State Constitutional requirements, and required to be levied by the County of Riverside on property within the District in an amount sufficient for the timely payment of principal of and interest on the Series A Bonds. See "SECURITY AND SOURCE OF PAYMENT FOR THE SERIES A BONDS" in the front portion of this Official Statement.

THE DISTRICT

Introduction

The District was established on July 1, 1966, as a result of the unification of the Alamos and Cottonwood Districts, the Hemet Valley Union School District and the Hemet Union High School District. The District covers approximately 650 square miles in the western part of the County of Riverside (the "County"). The City of Hemet, portions of the City of San Jacinto, and unincorporated areas of the County, including the communities of Idyllwild, Anza, Aguanga and Winchester are situated within the District's boundaries. Hemet is located approximately 45 miles west of Palm Springs, 75 miles north of San Diego 65 miles east of Los Angeles and 35 miles southeast of Riverside.

The District has a current enrollment of 21,371 students. The District currently operates preschool centers at nine school locations, eleven elementary schools (transitional kindergarten through fifth grade), three elementary/middle schools (transitional kindergarten through eighth grade), four middle schools (sixth through eighth grade), four comprehensive high schools (ninth through twelfth grade), one continuation high school (eleventh through twelfth grade), a science-based charter middle/high school (sixth through twelfth grade), an adult education center, independent study programs, a home school program, and a self-paced on-line instruction program offer a wide variety of learning opportunities for students of all ages. The charter school is operated by the District and its financial activities are presented in the District's audited financial statements in the Charter School Special Revenue Fund.

Total assessed valuation of taxable property in the District in fiscal year 2018-19 is $11,096,318,956. The District operates under the jurisdiction of the Riverside County Superintendent of Schools.

Governing Board

The District is governed by a Governing Board consisting of seven members who are elected at large to staggered four-year terms at elections held every two years. The District is divided into three trustee areas. Each December the Board elects a President and Vice President to serve one-year terms. The Superintendent acts as the Clerk of the Governing Board. Current voting members of the Governing Board, together with their office and the date their current term expires, are set forth on the following page.

HEMET UNIFIED SCHOOL DISTRICT
(Riverside County, California)

Governing Board

Name	Trustee Area	Office	Term Expires
Megan Haley	Area 2	President	December 2022
Rob Davis	Area 3	Vice President	December 2022
Stacey Bailey	Area 3	Member	December 2020
Gene Hikel	Area 3	Member	December 2020
Vic Scavarda	Area 1	Member	December 2022
Patrick Searl	Area 3	Member	December 2020
Horacio Valenzuela	Area 3	Member	December 2022

Superintendent and Business Services Personnel

The Superintendent of the District is appointed by the Board and reports to the Board. The Superintendent is responsible for management of the District's day-to-day operations and supervises the work of other key District administrators, including the Deputy Superintendent, Business Services.

DISTRICT FINANCIAL MATTERS

State Funding of Education; State Budget Process

General. As is true for all school districts in California, the District's operating income consists primarily of two components: a State portion funded from the State's general fund in accordance with the Local Control Funding Formula (the "Local Control Funding Formula" or "LCFF" (see "− Allocation of State Funding to School Districts; Local Control Funding Formula" herein) and a local portion derived from the District's share of the 1% local *ad valorem* tax authorized by the State Constitution (see "− Local Sources of Education Funding" herein). In addition, school districts may be eligible for other special categorical funding from State and federal government programs. The District has projected to receive approximately 77.62% of its general fund revenues from State funds (not including the local portion derived from the District's share of the local *ad valorem* tax), projected at approximately $220.51 million in fiscal year 2018-19. Such amount includes both the State funding provided under the LCFF as well as other State revenues (see "*−Allocation of State Funding to School Districts; Local Control Funding Formula*" and "*– Attendance and LCFF*" and "Other District Revenues – *Other State Revenues*" below). As a result, decreases or deferrals in State revenues, or in State legislative appropriations made to fund education, may significantly affect the District's revenues and operations.

Under Proposition 98, a constitutional and statutory amendment adopted by the State's voters in 1988 and amended by Proposition 111 in 1990 (now found at Article XVI, Sections 8 and 8.5 of the Constitution), a minimum level of funding is guaranteed to school districts, community college districts, and other State agencies that provide direct elementary and secondary instructional programs. Recent years have seen frequent disruptions in State personal income taxes, sales and use taxes, and corporate taxes, making it increasingly difficult for the State to meet its Proposition 98 funding mandate, which normally commands about 45% of all State general fund revenues, while providing for other fixed State costs and priority programs and services. Because education funding constitutes such a large part of the State's general fund expenditures, it is generally at the center of annual budget negotiations and adjustments.

In connection with the State Budget Act for fiscal year 2013-14, the State and local education agencies therein implemented the LCFF. Funding from the LCFF replaced the revenue limit funding system and most categorical programs. See "– *Allocation of State Funding to School Districts; Local Control Funding Formula*" herein for more information.

State Budget Process. According to the State Constitution, the Governor must propose a budget to the State Legislature no later than January 10 of each year, and a final budget must be adopted no later than June 15. The budget requires a simple majority vote of each house of the State Legislature for passage. The budget becomes law upon the signature of the Governor, who may veto specific items of expenditure. A two–thirds vote of the State Legislature is required to override any veto by the Governor. School district budgets must generally be adopted by July 1, and revised by the school board within 45 days after the Governor signs the budget act to reflect any changes in budgeted revenues and expenditures made necessary by the adopted State budget. The Governor signed the fiscal year 2018-19 State budget on June 27, 2018.

When the State budget is not adopted on time, basic appropriations and the categorical funding portion of each school district's State funding are affected differently. Under the rule of *White v. Davis* (also referred to as *Jarvis v. Connell*), a State Court of Appeal decision reached in 2002, there is no constitutional mandate for appropriations to school districts without an adopted budget or emergency appropriation, and funds for State programs cannot be disbursed by the State Controller until that time, unless the expenditure is (i) authorized by a continuing appropriation found in statute, (ii) mandated by the State Constitution (such as appropriations for salaries of elected State officers), or (iii) mandated by federal law (such as payments to State workers at no more than minimum wage). The State Controller has consistently stated that basic State funding for schools is continuously appropriated by statute, but that special and categorical funds may not be appropriated without an adopted budget. Should the State Legislature fail to pass a budget or emergency appropriation before the start of any fiscal year, the District might experience delays in receiving certain expected revenues. The District is authorized to borrow temporary funds to cover its annual cash flow deficits, and as a result of the *White v. Davis* decision, the District might find it necessary to increase the size or frequency of its cash flow borrowings, or to borrow earlier in the fiscal year. The District does not expect the *White v. Davis* decision to have any long-term effect on its operating budgets.

Aggregate State Education Funding. The Proposition 98 guaranteed amount for education is based on prior-year funding, as adjusted through various formulas and tests that take into account State proceeds of taxes, local property tax proceeds, school enrollment, per-capita personal income, and other factors. The State's share of the guaranteed amount is based on State general fund tax proceeds and is not based on the general fund in total or on the State budget. The local share of the guaranteed amount is funded from local property taxes. The total guaranteed amount varies from year to year and throughout the stages of any given fiscal year's budget, from the Governor's initial budget proposal to actual expenditures to post-year-end revisions, as better information regarding the various factors becomes available. Over the long run, the guaranteed amount will increase as enrollment and per capita personal income grow.

If, at year-end, the guaranteed amount is calculated to be higher than the amount actually appropriated in that year, the difference becomes an additional education funding obligation, referred to as "settle-up." If the amount appropriated is higher than the guaranteed amount in any year, that higher funding level permanently increases the base guaranteed amount in future years. The Proposition 98 guaranteed amount is reduced in years when general fund revenue growth lags personal income growth, and may be suspended for one year at a time by enactment of an urgency statute. In either case, in subsequent years when State general fund revenues grow faster than personal income (or sooner, as the Legislature may determine), the funding level must be restored to the guaranteed amount, the obligation to do so being referred to as "maintenance factor."

Although the California Constitution requires the State to approve a balanced State Budget Act each fiscal year, the State's response to fiscal difficulties in some years has had a significant impact upon the Proposition 98 minimum guarantee and the treatment of settle-up payments with respect to years in which the Proposition 98 minimum guarantee was suspended. The State has sought to avoid or delay paying settle-up amounts when funding has lagged the guaranteed amount. In response, teachers' unions, the State Superintendent and others sued the State or Governor in 1995, 2005, 2009 and 2011 to force them to fund schools in the full amount required. The settlement of the 1995 and 2005 lawsuits has so far resulted in over $4 billion in accrued State settle-up obligations. However, legislation enacted to pay down the obligations through additional education funding over time, including the Quality Education Investment Act of 2006, have also become part of annual budget negotiations, resulting in repeated adjustments and deferrals of the settle-up amounts.

The State has also sought to preserve general fund cash while avoiding increases in the base guaranteed amount through various mechanisms: by treating any excess appropriations as advances against subsequent years' Proposition 98 minimum funding levels rather than current year increases; by temporarily deferring apportionments of Proposition 98 funds from one fiscal year to the next; by permanently deferring apportionments of Proposition 98 funds from one fiscal year to the next; by suspending Proposition 98, as the State did in fiscal year 2004-05, fiscal year 2010-11, fiscal year 2011-12 and fiscal year 2012-13; and by proposing to amend the State Constitution's definition of the guaranteed amount and settle-up requirement under certain circumstances.

The District cannot predict how State income or State education funding will vary over the term to maturity of the Series A Bonds, and the District takes no responsibility for informing owners of the Series A Bonds as to actions the State Legislature or Governor may take affecting the current year's budget after its adoption. Information about the State budget and State spending for education is regularly available at various State-maintained websites. Text of proposed and adopted budgets may be found at the website of the Department of Finance, **www.dof.ca.gov**, under the heading "California Budget." An impartial analysis of the budget is posted by the Office of the Legislative Analyst at **www.lao.ca.gov**. In addition, various State of California official statements, many of which contain a summary of the current and past State budgets and the impact of those budgets on school districts in the State, may be found at the website of the State Treasurer, **www.treasurer.ca.gov**. The information referred to is prepared by the respective State agency maintaining each website and not by the District, and the District can take no responsibility for the continued accuracy of these internet addresses or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by these references.

2018-19 State Budget. The Governor signed the fiscal year 2018-19 State Budget (the "2018-19 State Budget") on June 27, 2018. The 2018-19 State Budget sets forth a balanced budget for fiscal year 2018-19 that projects approximately $133.33 billion in revenues, and $83.82 billion in non-Proposition 98 expenditures and $54.87 billion in Proposition 98 expenditures. The 2018-19 State Budget includes a $1.96 billion reserve in the Special Fund for Economic Uncertainties. The 2018-19 State Budget uses dedicated proceeds from Proposition 2 to pay down approximately $1.75 billion in past budgetary borrowing and State employee pension liabilities. The 2018-19 State Budget includes total funding of $97.2 billion ($56.1 billion General Fund and $41.1 billion other funds) for all kindergarten through grade 12 ("K-12") education programs. The 2018-19 State Budget provides $3.7 billion in new funding for the LCFF, which fully implements the school district and charter school formula two years earlier than originally scheduled, including both a 2.71% cost of living adjustment and an additional $570 million above the cost of living adjustment as an ongoing increase to the formula. The 2018-19 State Budget also provides $300 million one-time Proposition 98 General Fund resources for the Low-Performing Students Block Grant, which will provide resources in addition to LCFF funds to local educational agencies with students who perform at the lowest levels on the State's academic assessments and do not generate supplemental LCFF funds or State or federal special education resources.

Certain budgeted adjustments for K-12 education set forth in the 2018-19 State Budget include the following:

- Statewide System of Support. The 2018-19 State Budget includes $57.8 million in Proposition 98 General Fund resources for county offices of education to provide technical assistance to school districts, of which $4 million will go towards geographical regional leads to build systemwide capacity to support school district improvement.

- Multi-Tiered Systems of Support (MTSS). The 2018-19 State Budget includes $15 million one-time Proposition 98 General Fund resources to expand the State's MTSS framework to foster positive school climate in both academic and behavioral areas.

- Community Engagement Initiative. The 2018-19 State Budget includes $13.3 million one-time Proposition 98 General Fund resources for the California Collaborative for Educational Excellence and a co-lead county office of education to help school districts build capacity for community engagement in the local control and accountability plan ("LCAP") process.

- California Collaborative for Educational Excellence. The 2018-19 State Budget includes $11.5 million Proposition 98 General Fund resources to support the California Collaborative for Educational Excellence in its role within the statewide system of support.

- Special Education Local Plan Area (SELPA) Technical Assistance. The 2018-19 State Budget includes $10 million Proposition 98 General Fund resources for SELPAs to assist county offices of education in providing technical assistance to school districts identified for differentiated assistance (specific to students with exceptional needs) within the statewide system of support.

- Dashboard Improvement. The 2018-19 State Budget includes $300,000 one-time Proposition 98 General Fund resources to improve the user interface of the California School Dashboard.

- LCFF Budget Summary for Parents. The 2018-19 State Budget includes $200,000 one-time Proposition 98 General Fund resources to develop the electronic template for the LCFF Budget Summary for Parents, which will help stakeholders better understand funding decisions made within the LCAP.

- LCAP Redesign. The 2018-19 State Budget includes $200,000 one-time Proposition 98 General Fund resources to support intended future legislation to streamline the LCAP.

- Strong Workforce Program. The 2018-19 State Budget includes $164 million ongoing Proposition 98 General Fund resources to establish a K-12 specific component within the Strong Workforce Program designed to encourage local educational agencies to offer high-quality career technical education programs that are aligned with needed industry skills and regional workforce development efforts occurring through the existing Strong Workforce Program.

- Career Technical Education Incentive Grant Program. The 2018-19 State Budget includes $150 million ongoing Proposition 98 General Fund resources to make permanent the Career Technical Education Incentive Grant Program.

- Inclusive Early Education Expansion Program. The 2018-19 State Budget creates the Inclusive Early Education Expansion Program, providing $167.2 million one-time Proposition 98 General Fund resources through a competitive grant program to increase the availability of inclusive early education and care for children aged zero to five years old, especially in low-income areas and in areas with relatively low access to care.

The complete 2018-19 State Budget is available from the California Department of Finance website at **www.dof.ca.gov.** The District can take no responsibility for the continued accuracy of this internet address or for the accuracy, completeness or timeliness of information posted therein, and such information is not incorporated herein by such reference.

Proposed 2019-20 State Budget. The Governor released his proposed State budget for fiscal year 2019-20 (the "Proposed 2019-20 State Budget") on January 10, 2019. The Proposed 2019-20 State Budget sets forth a balanced budget for fiscal year 2019-20. However, the Governor cautions that there are uncertainties that must be considered as the budget is revised, including the impact of the global political and economic climate, changes to federal policy, rising costs and risk of recession. The Proposed 2019-20 State Budget estimates that total resources available in fiscal year 2018-19 totaled approximately $149.32 billion (including a prior year balance of approximately $12.38 billion) and total expenditures in fiscal year 2018-19 totaled approximately $144.08 billion. The Proposed 2019-20 State Budget projects total resources available for fiscal year 2019-20 of approximately $147.86 billion, inclusive of revenues and transfers of approximately $142.62 billion and a prior year balance of $5.24 billion. The Proposed 2019-20 State Budget projects total expenditures of $144.19 billion, inclusive of non-Proposition 98 expenditures of approximately $88.90 billion and Proposition 98 expenditures of approximately $55.30 billion. The Proposed 2019-20 State Budget proposes to allocate approximately $1.39 billion of the general fund's projected fund balance to the Reserve for Liquidation of Encumbrances and $2.28 billion of such fund balance to the State's Special Fund for Economic Uncertainties. In addition, the Proposed 2019-20 State Budget estimates the Rainy Day Fund will have a fund balance of $15.30 billion.

Certain budgeted adjustments for K-12 education set forth in the Proposed 2019-20 State Budget include the following:

- Local Control Funding Formula. The Proposed 2019-20 State Budget includes an increase of $2 billion in Proposition 98 general fund resources for the LCFF.

- CalSTRs Pension Costs. The Proposed 2019-20 State Budget includes a $3 billion one-time payment of non-Proposition 98 general fund resources to CalSTRs to reduce long-term liabilities for local educational agencies and community colleges, of which $700 million will go towards buying down employer contribution rates in 2019-20 and 2020-21. The remaining 2.3 billion will be allocated to the employers' long-term unfunded liability.

- Statewide System of Support. The Proposed 2019-20 State Budget includes an increase of $20.2 million of Proposition 98 general fund resources for county offices of education to provide technical assistance to school districts, consistent with the formula adopted in the 2018-19 State Budget.

- Reporting Systems Improvement. The Proposed 2019-20 State Budget includes an increase of $350,000 of one-time Proposition 98 general fund resources to merge the California School Dashboard, the LCAP electronic template, and other school site and school district reporting tools (including the School Accountability Report Card) into a single web-based application. The consolidated system will provide the public access to a single platform for information, streamline the existing reporting systems and eliminate duplicative and outdated information.

- Special Education. The Proposed 2019-20 State Budget includes $576 million of Proposition 98 general fund resources, of which $186 million is on a one-time basis, to support expanded special education services and school readiness supports at local educational agencies with high percentages of both students with disabilities and unduplicated students who are low-income, youth in foster care, and English language learners.

- Access to Full-Day Kindergarten Programs. The Proposed 2019-20 State Budget includes an increase of $750 million of one-time non-Proposition 98 general fund resources to increase participation in kindergarten programs by constructing new or retrofitting existing facilities for full-day kindergarten programs.

- Longitudinal Education Data. The Proposed 2019-20 State Budget includes an increase of $10 million of one-time non-Proposition 98 general fund resources for the development of a longitudinal data system to improve coordination across educational data systems and track the impact of state investments on achieving educational goals. This system will host student information from early education providers, K-12 schools, higher education institutions, employers, other workforce entities, and health and human services agencies. Stakeholder meetings will be held to consider data reliability and ways to improve data quality at each education segment.

- Proposition 98 Certification. The Proposed 2019-20 State Budget proposes to revise the Proposition 98 certification process to eliminate the cost allocation schedule and prohibit the State from adjusting Proposition 98 funding levels for a prior fiscal year in order to protect local educational agencies from unanticipated revenue drops in past fiscal years.

- School District Average Daily Attendance. The Proposed 2019-20 State Budget includes a decrease of $388 million of Proposition 98 general fund resources in 2018-19 for school districts as a result of a decrease in projected average daily attendance from the 2018-19 State Budget, and a decrease of $187 million of Proposition 98 general fund resources in 2019-20 for school districts as a result of further projected decline in average daily attendance for 2019-20.

- Local Property Tax Adjustments. The Proposed 2019-20 State Budget includes a decrease of $283 million of Proposition 98 general fund resources for school districts and county offices of education in 2018-19 as a result of higher offsetting property tax revenues, and a decrease of $1.25 billion of Proposition 98 general fund resources for school districts and county offices of education in 2019-20 as a result of increased offsetting property taxes

- Cost-of-Living Adjustments. The Proposed 2019-20 State Budget includes an increase of $187 million of Proposition 98 general fund resources to support a 3.46% cost-of-living adjustment for categorical programs that remain outside of the LCFF, including Special Education, Child Nutrition, State Preschool, Youth in Foster Care, the Mandates Block Grant, American Indian Education Centers, and the American Indian Early Childhood Education Program.

- CalWORKs Stages 2 and 3 Child Care. The Proposed 2019-20 State Budget includes a net increase of $119.4 million of non-Proposition 98 general fund resources in 2019-20 to reflect increases in the number of CalWORKs child care cases. Total costs for Stage 2 and Stage 3 child care are $597 million and $482.2 million, respectively.

- Full-Year Implementation of Prior Year State Preschool Slots. The Proposed 2019-20 State Budget includes an increase of $26.8 million of Proposition 98 general fund resources to reflect full-year costs of 2,959 full-day State Preschool slots implemented part-way through fiscal year 2018-19.

- County Offices of Education. The Proposed 2019-20 State Budget includes an increase of $9 million of Proposition 98 general fund resources for county offices of education to reflect a 3.46% cost-of-living adjustment and average daily attendance changes applicable to the LCFF.

- Instructional Quality Commission. The Proposed 2019-20 State Budget includes an increase of $279,000 of one-time non-Proposition 98 general fund resources for the Instructional Quality Commission to continue its work on the development of model curriculum and frameworks.

- Emergency Readiness, Response and Recovery Grant. The Proposed 2019-20 State Budget includes an increase of $50 million of one-time non-Proposition 98 general fund resources to commence a comprehensive, statewide education campaign on disaster preparedness and safety.

The complete Proposed 2019-20 State Budget is available from the California Department of Finance website at ***www.dof.ca.gov.*** The District can take no responsibility for the continued accuracy of this internet address or for the accuracy, completeness or timeliness of information posted therein, and such information is not incorporated herein by such reference.

LAO Overview of Proposed 2019-20 State Budget. The Legislative Analyst's Office ("LAO"), a nonpartisan State office which provides fiscal and policy information and advice to the State Legislature, released its report on the Proposed 2019-20 State Budget entitled "The 2019-20 Budget: Overview of the Governor's Budget" on January 14, 2019 (the "2019-20 Proposed Budget Overview"). In the 2019-20 Proposed Budget Overview, the LAO summarizes the condition of the Proposed 2019-20 State Budget in light of uncertainties such as market volatility, rising costs and risk of recession. The LAO also highlights key features of the Proposed 2019-20 State Budget, which include prioritizing debt repayments and one-time programmatic spending and the early introduction of new policy goals.

The LAO notes that the Proposed 2019-20 State Budget is in a positive position, based in large part on the availability of significant discretionary resources in the amount of $20.6 billion. The LAO explains that this is due to the administration's higher revenue assumptions and lower-than-expected spending in health and human services programs. The LAO anticipates that capital gains revenues will likely be lower than the Proposed 2019-20 State Budget assumes due to the recent volatility of the financial market, including the sharp decline in stock prices at the end of 2018. However, the LAO suggests that any losses in capital gains revenues would likely be off-set by lower constitutionally required spending and reserve deposits. As a result, the LAO explains that under current conditions, the net effect on discretionary resources would be less than the full revenue decline. Although the LAO maintains a positive outlook on the Proposed 2019-20 State Budget, the LAO recognizes that the current financial market and economic conditions can change significantly and affect revenues in the May Revision of the Proposed 2019-20 State Budget.

The LAO summarizes that the Proposed 2019-20 State Budget allocates $20.6 billion in discretionary resources among a variety of priorities, including $9.7 billion for reducing debts and liabilities on a one-time basis, $5.1 for programmatic spending on a one-time basis, $2.7 billion for ongoing spending and $3 billion for reserves. The LAO points out that the Proposed 2019-20 State Budget uses a significant portion of discretionary resources for debt repayment and prioritizes one-time spending for programmatic expansions. The LAO finds this allocation prudent even though the Proposed 2019-20 State Budget apportions a smaller share of resources for reserves than recent budgets. The LAO explains that this approach benefits the budget in future years and in some cases reduces ongoing spending growth.

The LAO notes that the Proposed 2019-20 State Budget apportions $2.7 billion for ongoing spending, which will reach an estimated $3.5 billion under full implementation as costs grow over time. The LAO explains that these expenditure levels are in line with estimates of available ongoing resources.

However, the LAO cautions that these costs could grow due to various uncertainties not captured in the spending proposals, such as increased costs for CalWORKs grants in case of recession and costs for disaster mitigation, response and recovery. The LAO further notes that while the Proposed 2019-20 State Budget includes mostly one-time spending for these purposes, they are more likely to be ongoing costs.

The LAO explains that the Proposed 2019-20 State Budget establishes a number of policy goals, including developing a plan for implementing universal preschool, negotiating existing state prescription drug prices and reviewing related negotiation and procurement practices, and expanding paid family leave. The LAO notes that these proposals are still in the process of development and, therefore, are not reflected in the administration's budget bottom line. The LAO finds that by proposing these policy goals at the beginning of the budget process, the Governor gives the State Legislature the opportunity to collaborate with the administration to shape these policies.

The 2019-20 Proposed Budget Overview is available on the LAO website at **www.lao.ca.gov**. The District can take no responsibility for the continued accuracy of this internet address or for the accuracy, completeness or timeliness of information posted therein, and such information is not incorporated herein by such reference.

Changes in State Budget. The final fiscal year 2019-20 State budget, which requires approval by a majority vote of each house of the State Legislature, may differ substantially from the Governor's budget proposal. Accordingly, the District cannot provide any assurances that there will not be any changes in the final fiscal year 2019-20 State budget from the Proposed 2019-20 State Budget. Additionally, the District cannot predict the impact that the final fiscal year 2019-20 State budget, or subsequent budgets, will have on its finances and operations. The final fiscal year 2019-20 State budget may be affected by national and State economic conditions and other factors which the District cannot predict.

Future Budgets and Budgetary Actions. The District cannot predict what future actions will be taken by the State Legislature and the Governor to address changing State revenues and expenditures or the impact such actions will have on State revenues available in the current or future years for education. The State budget will be affected by national and State economic conditions and other factors beyond the District's ability to predict or control. Certain actions could result in a significant shortfall of revenue and cash, and could impair the State's ability to fund schools during fiscal year 2019-20 and in future fiscal years. Certain factors, like an economic recession, could result in State budget shortfalls in any fiscal year and could have a material adverse financial impact on the District. As the Series A Bonds are payable from *ad valorem* property taxes, the State budget is not expected to have an impact on the payment of the Bonds.

Prohibitions on Diverting Local Revenues for State Purposes. Beginning in 1992-93, the State satisfied a portion of its Proposition 98 obligations by shifting part of the property tax revenues otherwise belonging to cities, counties, special districts, and redevelopment agencies, to school and community college districts through a local Educational Revenue Augmentation Fund ("ERAF") in each county. Local agencies, objecting to invasions of their local revenues by the State, sponsored a statewide ballot initiative intended to eliminate the practice. In response, the State Legislature proposed an amendment to the State Constitution, which the State's voters approved as Proposition 1A at the November 2004 election. That measure was generally superseded by the passage of an initiative constitutional amendment at the November 2010 election, known as "Proposition 22."

The effect of Proposition 22 is to prohibit the State, even during a period of severe fiscal hardship, from delaying the distribution of tax revenues for transportation, redevelopment, or local government projects and services. It prevents the State from redirecting redevelopment agency property tax increment to any other local government, including school districts, or from temporarily shifting property taxes from cities, counties and special districts to schools, as in the ERAF program. This is intended to, among other things, stabilize local government revenue sources by restricting the State's control over local property taxes. One effect of this amendment has been to deprive the State of fuel tax revenues to pay debt service on most State bonds for transportation projects, reducing the amount of State general fund resources available for other purposes, including education.

Prior to the passage of Proposition 22, the State invoked Proposition 1A to divert $1.935 billion in local property tax revenues in 2009-10 from cities, counties, and special districts to the State to offset State general fund spending for education and other programs, and included another diversion in the adopted 2009-10 State budget of $1.7 billion in local property tax revenues from local redevelopment agencies, which local redevelopment agencies have now been dissolved (see "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS – Assembly Bill No. 26 & *California Redevelopment Association v. Matosantos*" herein). Redevelopment agencies had sued the State over this latter diversion. However, the lawsuit was decided against the California Redevelopment Association on May 1, 2010. Because Proposition 22 reduces the State's authority to use or shift certain revenue sources, fees and taxes for State general fund purposes, the State will have to take other actions to balance its budget in some years − such as reducing State spending or increasing State taxes, and school and community college districts that receive Proposition 98 or other funding from the State will be more directly dependent upon the State's general fund.

Allocation of State Funding to School Districts; Local Control Funding Formula. Prior to the implementation of the Local Control Funding Formula in fiscal year 2013-14, under California Education Code Section 42238 and following, each school district was determined to have a target funding level: a "base revenue limit" per student multiplied by the district's student enrollment measured in units of average daily attendance. The base revenue limit was calculated from the district's prior-year funding level, as adjusted for a number of factors, such as inflation, special or increased instructional needs and costs, employee retirement costs, especially low enrollment, increased pupil transportation costs, etc. Generally, the amount of State funding allocated to each school district was the amount needed to reach that district's base revenue limit after taking into account certain other revenues, in particular, locally generated property taxes. This is referred to as State "equalization aid." To the extent local tax revenues increased due to growth in local property assessed valuation, the additional revenue was offset by a decline in the State's contribution; ultimately, a school district whose local property tax revenues exceeded its base revenue limit was entitled to receive no State equalization aid, and received only its special categorical aid, which is deemed to include the "basic aid" of $120 per student per year guaranteed by Article IX, Section 6 of the Constitution. Such districts were known as "basic aid districts," which are now referred to as "community funded districts." School districts that received some equalization aid were commonly referred to as "revenue limit districts," which are now referred to as "LCFF districts." The District is an LCFF district.

Beginning in fiscal year 2013-14, the LCFF replaced the revenue limit funding system and most categorical programs, and distributes combined resources to school districts through a base grant ("Base Grant") per unit of average daily attendance ("A.D.A.") with additional supplemental funding (the "Supplemental Grant") allocated to local educational agencies based on their proportion of English language learners, students from low-income families and foster youth. The LCFF was projected to have an eight year implementation program to incrementally close the gap between actual funding and the target level of funding, as described below. The LCFF includes the following components:

- A Base Grant for each local education agency ("LEA"). The Base Grants are based on four uniform, grade-span base rates. For fiscal year 2018-19, the LCFF provided to school districts and charter schools: (a) a Target Base Grant for each LEA equivalent to $8,235 per A.D.A. for kindergarten through grade 3; (b) a Target Base Grant for each LEA equivalent to $7,571 per A.D.A. for grades 4 through 6; (c) a Target Base Grant for each LEA equivalent to $7,796 per A.D.A. for grades 7 and 8; (d) a Target Base Grant for each LEA equivalent to $9,269 per A.D.A. for grades 9 through

12. However, the amount of actual funding allocated to the Base Grant, Supplemental Grants and Concentration Grants will be subject to the discretion of the State. This amount includes an adjustment of 10.4% to the Base Grant to support lowering class sizes in grades K-3, and an adjustment of 2.6% to reflect the cost of operating career technical education programs in grades 9-12. Further, this amount also includes the higher costs-of-living adjustment of 3.70% authorized by the 2018-19 State Budget, which is known as "super COLA."

- A 20% Supplemental Grant for the unduplicated number of English language learners, students from low-income families and foster youth to reflect increased costs associated with educating those students.

- An additional Concentration Grant of up to 50% of a LEA's Base Grant, based on the number of English language learners, students from low-income families and foster youth served by the LEA that comprise more than 55% of enrollment.

- An Economic Recovery Target (the "ERT") that is intended to ensure that almost every LEA receives at least their pre-recession funding level (i.e., the fiscal year 2007-08 revenue limit per unit of A.D.A.), adjusted for inflation, at full implementation of the LCFF. Upon full implementation, LEAs would receive the greater of the Base Grant or the ERT.

Under LCFF, for community funded districts, local property tax revenues would be used to offset up to the entire allocation under the new formula. However, community funded districts would continue to receive the same level of State aid as allocated in fiscal year 2012-13.

Local Control Accountability Plans. A feature of the LCFF is a system of support and intervention for local educational agencies. School districts, county offices of education and charter schools are required to develop, implement and annually update a three-year LCAP. Each LCAP must be developed with input from teachers, parents and the community, and should describe local goals as they pertain to eight areas identified as state priorities, including student achievement, parent engagement and school climate, as well as detail a course of action to attain those goals. Moreover, the LCAPs must be designed to align with the district's budget to ensure adequate funding is allocated for the planned actions.

Each school district must submit its LCAP annually on or before July 1 for approval by its county superintendent. The county superintendent then has until August 15 to seek clarification regarding the contents of the LCAP, and the school district must respond in writing. The county superintendent can submit recommendations for amending the LCAP, and such recommendations must be considered, but are not mandatory. A school district's LCAP must be approved by its county superintendent by October 8 of each year if such superintendent finds (i) the LCAP adheres to the State template, and (ii) the district's budgeted expenditures are sufficient to implement the strategies outlined in the LCAP.

Performance evaluations are to be conducted to assess progress toward goals and guide future actions. County superintendents are expected to review and provide support to the school districts under their jurisdiction, while the State Superintendent of Public Instruction performs a corresponding role for county offices of education. The California Collaborative for Education Excellence (the "Collaborative"), a newly established body of educational specialists, was created to advise and assist local education agencies in achieving the goals identified in their LCAPs. For local education agencies that continue to struggle in meeting their goals, and when the Collaborative indicates that additional intervention is needed, the State Superintendent of Public Instruction would have authority to make changes to a local education agency's LCAP.

Attendance and LCFF. The following table sets forth the District's actual and budgeted A.D.A., enrollment (including percentage of students who are English language learners, from low-income families and/or foster youth (collectively, "EL/LI Students")), and targeted Base Grant per unit of A.D.A. for fiscal years 2013-14 through 2018-19, respectively. The A.D.A. and enrollment numbers reflected in the following table include special education students but do not include enrollment at Western Center Academy.

HEMET UNIFIED SCHOOL DISTRICT
(Riverside County, California)
Average Daily Attendance, Enrollment and Targeted Base Grant
Fiscal Years 2013-14 through 2018-19

		A.D.A./Base Grant					Enrollment[9]	
Fiscal Year		K-3	4-6	7-8	9-12	Total A.D.A.	Total Enrollment[7]	Unduplicated Percentage of EL/LI Students
2013-14	A.D.A.[2]:	6,102.05	4,495.00	2,828.02	6,398.95	19,824.02	20,931	81.64%
	Targeted Base Grant[3]:	$7,675	$7,056	$7,266	$8,638	--	--	--
2014-15	A.D.A.[2]:	6,080.91	4,506.57	2,818.32	6,243.95	19,649.75	20,817	81.56%
	Targeted Base Grant[3][4]:	$7,740	$7,116	$7,328	$8,712	--	--	--
2015-16	A.D.A.[2]:	5,951.36	4,596.82	2,800.30	6,386.92	19,735.40	20,966	81.77%
	Targeted Base Grant[3][5]:	$7,820	$7,189	$7,403	$8,578	--	--	--
2016-17	A.D.A.[2]:	5,891.61	4,650.34	2,977.89	6,406.33	19,926.17	21,071	81.79%
	Targeted Base Grant[3][6]:	$7,820	$7,189	$7,403	$8,618	--	--	--
2017-18	A.D.A.[2]:	6,042.06	4,609.29	3,031.70	6,346.34	20,029.39	21,126	82.38%
	Targeted Base Grant[3][7]:	$7,941	$7,301	$7,518	$8,618	--	--	--
2018-19[1]	A.D.A.[1][2]:	6,171.60	4,537.00	3,011.80	6,514.00	20,234.40	21,371	82.7%
	Targeted Base Grant[3][8]:	$8,235	$7,571	$7,796	$9,269	--	--	--

[1] Figures are projections based on the adoption of the first interim report for fiscal year 2018-19; these projections will be revised throughout such fiscal year.
[2] A.D.A. for the second period of attendance, typically in mid-April of each school year.
[3] Such amounts represent the targeted amount of Base Grant per unit of A.D.A., and include the grade span adjustment, but do not include any supplemental and concentration grants under the LCFF. Such amounts were not expected to be fully funded in fiscal years shown above. However, the LCFF is now fully implemented as of the current fiscal year 2018-19 – two years ahead of its anticipated implementation.
[4] Targeted fiscal year 2014-15 Base Grant amount reflects a 0.85% cost-of-living adjustment from targeted fiscal year 2013-14 Base Grant amounts.
[5] Targeted fiscal year 2015-16 Base Grant amount reflects a 1.02% cost-of-living adjustment from targeted fiscal year 2014-15 Base Grant amounts.
[6] Targeted fiscal year 2016-17 Base Grant amount reflects a 0.00% cost-of-living adjustment from targeted fiscal year 2015-16 Base Grant amounts.
[7] Targeted fiscal year 2017-18 Base Grant amount reflects a 1.56% cost-of-living adjustment from targeted fiscal year 2016-17 Base Grant amounts.
[8] Targeted fiscal year 2018-19 Base Grant amount reflects a 3.70% cost-of-living adjustment from targeted fiscal year 2017-18 Base Grant amounts. This "super COLA" amount was authorized by the 2018-19 State Budget and exceeds the statutory 2.71% cost-of-living adjustment.
[9] Reflects enrollment as of October report submitted to the California Department of Education through CBEDS for the 2013-14 and 2014-15 school years and California Longitudinal Pupil Achievement Data System ("CALPADS") for the 2015-16 through 2017-18 school year. For purposes of calculating Supplemental and Concentration Grants, a school district's fiscal year 2013-14 percentage of unduplicated EL/LI Students was expressed solely as a percentage of its fiscal year 2013-14 total enrollment. For fiscal year 2014-15, the percentage of unduplicated EL/LI Students enrollment was based on the two-year average of EL/LI Students enrollment in fiscal years 2013-14 and 2014-15. Beginning in fiscal year 2015-16, a school district's percentage of unduplicated EL/LI Students was based on a rolling average of such school district's EL/LI Students enrollment for the then-current fiscal year and the two immediately preceding fiscal years.
Source: Hemet Unified School District.

The District received approximately $203.88 million in aggregate revenues reported under LCFF sources in fiscal year 2017-18 and has projected to receive approximately $222.60 million in aggregate revenues under the LCFF in fiscal year 2018-19 (or approximately 78.35% of its general fund revenues in fiscal year 2018-19). Such amount includes supplemental grants and concentration grants projected to be approximately $28.0 million and $23.47 million, respectively, in fiscal year 2018-19.

Local Sources of Education Funding

The principal component of local revenues is a school district's property tax revenues, i.e., each district's share of the local 1% property tax, received pursuant to Sections 75 and following and Sections 95 and following of the California Revenue and Taxation Code. California Education Code Section 42238(h) itemizes the local revenues that are counted towards the amount allocated under the LCFF (and formerly, the base revenue limit) before calculating how much the State must provide in State aid. The more local property taxes a district receives, the less State aid it is entitled to receive. Prior to the implementation of the LCFF, a school district whose local property tax revenues exceeded its base revenue limit was entitled to receive no State aid, and received only its special categorical aid which is deemed to include the "basic aid" of $120 per student per year guaranteed by Article IX, Section 6 of the Constitution. Such districts were known as "basic aid districts," which are now referred to as "community funded districts." School districts that received some State equalization aid were commonly referred to as "revenue limit districts." The District was a revenue limit district and is now referred to as an LCFF district.

Under the LCFF, local property tax revenues are used to offset up to the entire State aid collection under the new formula; however, community funded districts would continue to receive, at a minimum, the same level of State aid as allotted in fiscal year 2012-13. See "State Funding of Education; State Budget Process −*Allocation of State Funding to School Districts; Local Control Funding Formula" herein for more information about the LCFF*.

Local property tax revenues account for approximately 12.36% of the District's aggregate revenues reported under LCFF sources and are projected to be approximately $27.52 million, or 9.67% of total general fund revenues in fiscal year 2018-19.

For information about the property taxation system in California and the District's property tax base, see the sections titled "– Property Taxation System," "–Assessed Valuation of Property within the District," and "–Tax Charges and Delinquencies" under the caption "SECURITY AND SOURCE OF PAYMENT FOR THE SERIES A BONDS" in the front portion of the Official Statement.

For a discussion of legal limitations on the ability of the District to raise revenues through local property taxes, see "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS" below.

Effect of Changes in Enrollment. Changes in local property tax income and A.D.A. affect LCFF districts and community funded districts differently.

In an LCFF district, such as the District, increasing enrollment increases the total amount distributed under the LCFF and thus generally increases a district's entitlement to State equalization aid, while increases in property taxes do nothing to increase district revenues, but only offset the State funding requirement of equalization aid. Operating costs increase disproportionately slowly to enrollment growth; and only at the point where additional teachers and classroom facilities are needed. Declining enrollment has the reverse effect on LCFF districts, generally resulting in a loss of State equalization aid, while operating costs decrease slowly and only when, for example, the district decides to lay off teachers or close schools.

In community funded districts, the opposite is generally true: increasing enrollment increases the amount to which the district would be entitled were it an LCFF district, but since all LCFF income (and more) is already generated by local property taxes, there is no increase in State income. Meanwhile, as new students impose increased operating costs, property tax income is stretched further. Declining enrollment does not reduce property tax income, and has a negligible impact on State aid, but eventually reduces operating costs, and thus can be financially beneficial to a community funded district.

Other District Revenues

Federal Revenues. The federal government provides funding for several District programs, including special education programs. Federal revenues, most of which are restricted, comprise approximately 6.54% (or approximately $18.57 million) of the District's general fund projected revenues for fiscal year 2018-19.

Other State Revenues. In addition to State apportionments for Proposition 98 funding through the Local Control Funding Formula, the District receives other State revenues, consisting primarily of restricted revenues designed to implement State mandated programs. Beginning in fiscal year 2013-14, categorical spending restrictions associated with a majority of State mandated programs were eliminated, and funding for these programs was folded into the LCFF. Categorical funding for certain programs was excluded from the LCFF, and school districts will continue to receive restricted State revenues to fund these programs. Other State revenues comprise approximately 8.95% (or approximately $25.44 million) of the District's general fund projected revenues for fiscal year 2018-19.

A portion of such other State revenues are amounts the District expects to receive from State lottery funds, a portion of which may not be used for non-instructional purposes, such as the acquisition of real property, the construction of facilities, or the financing of research. School districts receive lottery funds proportional to their total A.D.A. The District's State lottery revenue is projected at approximately $4.12 million for fiscal year 2018-19.

Other Local Revenues. In addition to *ad valorem* property taxes, the District receives additional local revenues from sources such as interest income, leases and rentals, educational foundations, donations and sales of property. Other local revenues comprise approximately 6.15% (or approximately $17.48) of the District's general fund projected revenues for fiscal year 2018-19.

Charter Schools

Charter schools are largely independent schools operating as part of the public school system created pursuant to Part 26.8 (beginning with Section 47600) of Division 4 of Title 2 of the California Education Code (the "Charter School Law"). A charter school is usually created or organized by a group of teachers, parents and community leaders, or a community-based organization, and may be approved by an existing local public school district, a county board of education or the State Board of Education. A charter school is generally exempt from the laws governing school districts, except where specifically noted in the law. The Charter School Law acknowledges that among its intended purposes are to (a) provide parents and students with expanded choices in the types of educational opportunities that are available within the public school system, (b) hold schools accountable for meeting measurable pupil outcomes and provide schools a way to shift from a rule-based to a performance-based system of accountability, and (c) provide competition within the public school system to stimulate improvements in all public schools.

A school district has certain fiscal oversight and other responsibilities with respect to both dependent and independent charter schools. However, independent charter schools that receive their funding directly from the State are generally not included in a school district's financial reports and audited financial statements and function like independent agencies, including having control over their staffing and budgets, which are received directly from the State. Dependent charter schools receive their funding from the school district and would generally be included in the school district's financial reports and audited financial statements.

There is currently one charter school, Western Center Academy, operating in the District. Western Center Academy is a dependent charter school and operates under charter from the District. Western Center Academy serve grades sixth through twelfth and enrollment was approximately 671 students in fiscal year 2017-18 and is 678 students in fiscal year 2018-19. The District's audited financial statements for fiscal year 2017-18, which are included as Appendix B, include the operations of Western Center Academy.

The College Prep High Charter School closed effective June 30, 2017 when the District terminated its charter because it offered very similar programs to the Helen Hunt Jackson College Prep School, which is one of the District's alternative schools serving ninth through twelfth grade and offering independent study, project based learning courses and digital learning. The District determined that it would be more cost effective for the two schools to combine their resources. At the time of the closure of College Prep High Charter School, it was only serving a class of senior high school students that graduated prior to the closure.

The District can make no representation as to whether enrollment at such charter school may increase at the expense of District enrollment in future years, whether additional charter schools will be established within the territory of the District, or as to the impact these or other charter school developments may have on the District's A.D.A. or finances in future years.

Significant Accounting Policies and Audited Financial Reports

The State Department of Education imposes by law uniform financial reporting and budgeting requirements for K-12 districts. Financial transactions are accounted for in accordance with the Department of Education's California School Accounting Manual. This manual, according to Section 41010 of the Education Code, is to be followed by all California school districts, including the District. Significant accounting policies followed by the District are explained in Note 1 to the District's audited financial statements for the fiscal year ended June 30, 2018, which are included as Appendix B.

Independently audited financial reports are prepared annually in conformity with generally accepted accounting principles for educational institutions. The annual audit report is generally available about six months after the June 30 close of each fiscal year. The following tables contain data abstracted from financial statements prepared by the District's independent auditor, Vavrinek, Trine, Day & Co., LLP, Rancho Cucamonga, California, for fiscal years 2013-14 through 2017-18.

Vavrinek, Trine, Day & Co., LLP has not been requested to consent to the use or to the inclusion of its reports in this Official Statement, and it has not audited or reviewed this Official Statement. The District is required by law to adopt its audited financial statements after a public meeting to be conducted no later than January 31 following the close of each fiscal year.

The table on the following page sets forth the statement of revenues, expenditures and changes in fund balances for the District's general fund for the fiscal years 2013-14 through 2017-18.

HEMET UNIFIED SCHOOL DISTRICT
(Riverside County, California)
Statement of General Fund Revenues, Expenditures and Changes in Fund Balance
Fiscal Years 2013-14 through 2017-18

	Fiscal Year 2013-14	Fiscal Year 2014-15[1]	Fiscal Year 2015-16	Fiscal Year 2016-17	Fiscal Year 2017-18[1]
Revenues:					
Local Control Funding Formula	$132,074,030	$151,592,331	$179,062,317	$195,739,591	$203,876,640
Federal sources	15,442,873	15,334,017	15,996,490	17,980,848	18,314,202
Other State sources	16,794,923	13,954,257	28,977,934	24,427,422	24,884,208
Other local sources	15,011,847	16,963,433	18,060,188	16,811,558	16,745,681
Total Revenues	179,323,673	197,844,038	$242,096,929	254,959,419	263,820,731
Expenditures:					
Current					
Instruction	109,856,226	125,961,212	140,398,268	155,310,942	166,887,029
Instruction-related activities:					
Supervision of instruction	7,185,369	8,444,836	9,449,730	10,718,844	13,229,899
Instructional library, media and technology	1,336,809	1,497,915	1,652,811	2,369,770	2,100,460
School administration	13,328,799	14,892,269	15,764,442	16,764,082	18,141,551
Pupil services:					
Home-to-school transportation	4,070,143	4,934,462	5,511,689	5,957,052	7,005,879
Food services	35,873	32,109	19,002	19,557	28,824
All other pupil services	11,121,454	13,395,881	15,203,414	16,910,380	20,058,547
Administration:					
Data processing	2,363,649	3,331,629	3,804,184	3,240,325	4,579,163
All other administration	8,600,283	9,707,091	9,962,198	12,280,853	11,558,541
Plant services	16,682,228	17,919,582	19,281,048	20,465,317	23,146,832
Facility acquisition and construction	486,966	1,486,283	1,086,535	5,847,455	1,762,514
Ancillary services	1,185,736	1,907,325	1,928,608	2,041,090	2,140,569
Community services	98,388	115,390	132,373	117,973	117,810
Transfers between agencies	593,272	491,010	-	-	-
Other outgo	-	-	239,262	28,826	228,846
Enterprise services	-	-	-	86	1,049
Debt service:					
Principal	697,533	535,634	831,279	932,430	104,108
Interest	544,366	553,902	458,986	51,575	63,002
Total expenditures	178,187,094	205,206,530	225,737,870	253,056,557	271,154,623
Excess (deficiency) of revenues over expenditures	1,136,579	(7,362,492)	16,359,059	1,902,862	(7,333,892)
Other financing sources (uses)					
Transfers in	1,502,778	585,172	1,292,995	4,796,007	5,860,848
Other sources	-	420,268	376,735	-	-
Transfers out[2]	(4,574,537)	(4,588,879)	(3,973,757)	(5,986,066)	(6,797,408)
Net Financing Sources (Uses)	(3,071,759)	(3,583,439)	(2,304,027)	(1,190,059)	(936,560)
Net change in fund balances	(1,935,180)	(10,945,931)	14,055,032	712,803	(8,270,452)
Fund balances, Beginning	37,466,535	35,531,355	24,585,424	38,640,456	39,353,259
Fund balances, Ending	$35,531,355	$24,585,424	$38,640,456	$39,353,259	$31,082,807

[1] The deficit spending in fiscal year 2014-15 was related to labor union negotiation settlements and the roll out of LCAP initiatives under LCFF. The deficit spending in fiscal year 2017-18 was related to labor union negotiation settlements, one-time textbook adoption costs and expansion of LCAP initiatives as the LCFF funding gap neared closing. For both fiscal year 2014-15 and 2017-18, the District's deficit spending was planned in advance based on the needs of the District.
[2] The District transfers funds out of the General Fund to other funds of the District for a variety of reasons, including deferred maintenance, child development, and OPEB reserves. The increases in transfers out in fiscal year 2016-17 and 2017-18 are due in large part to increased transfers for deferred maintenance and OPEB reserves.
Source: Hemet Unified School District Audited Financial Reports for fiscal years 2013-14 through 2017-18.

The following table shows the general fund balance sheet of the District for fiscal years 2013-14 through 2017-18.

HEMET UNIFIED SCHOOL DISTRICT
(Riverside County, California)
Summary of General Fund Balance Sheet
Fiscal Years 2013-14 through 2017-18

	Fiscal Year 2013-14	Fiscal Year 2014-15	Fiscal Year 2015-16	Fiscal Year 2016-17	Fiscal Year 2017-18
ASSETS					
Deposits and investments	$11,991,669	$20,941,650	$36,100,706	$37,964,444	$34,208,702
Receivables	42,306,800	8,930,432	7,698,925	9,112,307	6,263,060
Due from other funds	4,133,598	813,072	340,879	1,419,904	1,318,958
Stores inventories	271,906	220,937	245,788	207,286	167,825
Total assets	$58,703,973	$30,906,091	$44,386,298	$48,703,941	$41,958,545
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	$22,426,456	$5,067,715	$5,602,417	$6,915,268	$8,972,919
Due to other funds	734,153	991,466	143,425	1,907,424	795,791
Unearned revenue	12,009	261,486	-	527,990	1,107,028
Total Liabilities	23,172,618	6,320,667	5,745,842	9,350,682	10,875,738
Fund balances:					
Nonspendable	296,906	245,937	270,788	232,286	192,825
Restricted	4,534,590	1,164,301	6,484,760	4,124,451	2,816,755
Committed	1,503,919	1,509,391	3,519,845	4,848,373	14,175,227
Assigned	20,085,940	11,176,020	16,779,463	17,133,149	-
Unassigned	9,110,000	10,489,775	11,585,600	13,015,000	13,898,000
Total Fund Balances	35,531,355	24,585,424	38,640,456	39,353,259	31,082,807
Total Liabilities and Fund Balances	$58,703,973	$30,906,091	$44,386,298	$48,703,941	$41,958,545

Source: Hemet Unified School District Audited Financial Reports for fiscal years 2013-14 through 2017-18.

District Budget Process and County Review

State law requires school districts to maintain a balanced budget in each fiscal year. The State Department of Education imposes a uniform budgeting and accounting format for school districts.

Under current law, a school district governing board must adopt and file with the county superintendent of schools a tentative budget by July 1 in each fiscal year. The District is under the jurisdiction of the County of Riverside Superintendent of Schools.

The county superintendent must review and approve, conditionally approve or disapprove the budget no later than September 15. The county superintendent is required to examine the adopted budget for compliance with the standards and criteria adopted by the State Board of Education and identify technical corrections necessary to bring the budget into compliance with the established standards. In the event that the county superintendent conditionally approves or disapproves the school district's budget, the county superintendent will submit to the governing board of the school district no later than September 15 of such year recommendations regarding revisions of the budget and the reasons for the recommendations, including, but not limited to, the amounts of any budget adjustments needed before the county superintendent can approve that budget.

The governing board of the school district, together with the county superintendent, must review and respond to the recommendations of the county superintendent before October 8 at a regular meeting of the governing board of the school district. The county superintendent will examine and approve or disapprove of the revised budget by November 8 of such year. If the county superintendent of schools disapproves a revised budget, the county superintendent will call for the formation of a budget review committee. By December 31 of each year, every school district must have an adopted budget, or the county superintendent of schools may impose a budget and will report such school district to the State Legislature and the Department of Finance.

Subsequent to approval, the county superintendent will monitor each district under its jurisdiction throughout the fiscal year pursuant to its adopted budget to determine on an ongoing basis if the district can meet its current or subsequent year financial obligations. If the county superintendent determines that a district cannot meet its current or the subsequent year's obligations, the county superintendent will notify the district's governing board of the determination and may then do either or both of the following: (a) assign a fiscal advisor to enable the district to meet those obligations, or (b) if a study and recommendations are made and a district fails to take appropriate action to meet its financial obligations, the county superintendent will so notify the State Superintendent of Public Instruction, and then may do any or all of the following for the remainder of the fiscal year: (i) request additional information regarding the district's budget and operations; (ii) develop and impose, after also consulting with the district's governing board, revisions to the budget that will enable the district to meet its financial obligations; and (iii) stay or rescind any action inconsistent with such revisions. However, the county superintendent may not abrogate any provision of a collective bargaining agreement that was entered into prior to the date upon which the county superintendent assumed authority.

A State law adopted in 1991 (known as "A.B. 1200") imposed additional financial reporting requirements on school districts, and established guidelines for emergency State aid apportionments. Under the provisions of A.B. 1200, each school district is required to file two interim certifications with the county superintendent (on December 15, for the period ended October 31, and by mid-March for the period ended January 31) as to its ability to meet its financial obligations for the remainder of the then-current fiscal year and, based on current forecasts, for the subsequent fiscal year. The county superintendent reviews the certification and issues either a positive, negative or qualified certification. A positive certification is assigned to any school district that will meet its financial obligations for the current fiscal year and the subsequent two fiscal years. A negative certification is assigned to any school district that is deemed unable to meet its financial obligations for the remainder of the fiscal year or the subsequent fiscal year. A qualified certification is assigned to any school district that may not meet its financial obligations for the current fiscal year or the two subsequent fiscal years. A certification may be revised to a negative or qualified certification by the county superintendent, as appropriate. A school district that receives a qualified or negative certification for its second interim report must provide to the county superintendent, the State Controller and the Superintendent no later than June 1, financial statement projections of the school district's fund and cash balances through June 30 for the period ending April 30. A school district that receives a qualified or negative certification may not issue tax and revenue anticipation notes or certificates of participation without approval by the county superintendent in that fiscal year or in the next succeeding year. In the last five years, the District has not received a qualified or negative certification in connection with its first interim reports or second interim reports.

For school districts under fiscal distress, the county superintendent is authorized to take a number of actions to ensure that the school district meets its financial obligations, including budget revisions. However, the county superintendent is not authorized to approve any diversion of revenue from *ad valorem* taxes levied to pay debt service on district general obligation bonds. A school district that becomes insolvent may, upon the approval of a fiscal plan by the county superintendent of schools, receive an emergency appropriation from the State, the acceptance of which constitutes an agreement to submit to management of the school district by a Superintendent appointed administrator.

In the event the State elects to provide an emergency appropriation to a school district, such appropriation may be accomplished through the issuance of "State School Fund Apportionment Lease Revenue Bonds" to be issued by the California Infrastructure and Economic Development Bank, on behalf of the school district. State law provides that so long as such bonds are outstanding, the recipient school district (via its State-appointed administrator) cannot file for bankruptcy.

The following table sets forth the District's adopted general fund budgets for fiscal years 2016-17 through 2018-19, unaudited actuals for fiscal years 2016-17 and 2017-18, and first interim report for fiscal year 2018-19.

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HEMET UNIFIED SCHOOL DISTRICT
(Riverside County, California)
General Fund Budgets for Fiscal Years 2016-17 through 2018-19,
Unaudited Actuals for Fiscal Years 2016-17 and 2017-18
and First Interim Report for Fiscal Year 2018-19

	2016-17 Original Adopted Budget	2016-17 Unaudited Actuals[(1)]	2017-18 Original Adopted Budget	2017-18 Unaudited Actuals[(1)]	2018-19 Original Adopted Budget	2018-19 First Interim Report[(2)]
REVENUES						
LCFF Sources	$192,983,005.00	$195,739,591.00	$202,930,091.00	$203,876,640.26	$221,269,152.00	$222,599,160.00
Federal Revenue	15,788,863.00	17,980,849.16	16,135,274.00	18,314,201.59	18,143,146.00	18,567,423.00
Other State Revenue	23,783,513.00	24,427,421.95	17,430,199.00	24,884,208.05	27,051,792.00	25,437,240.35
Other Local Revenue	15,571,360.00	16,783,029.07	16,125,968.00	16,680,016.26	16,973,214.00	17,481,922.00
TOTAL REVENUES	$248,126,741.00	$254,930,891.18	$252,621,532.00	$263,755,066.16	$283,437,304.00	$284,085,745.35
EXPENDITURES						
Certificated Salaries	111,001,338.00	110,287,416.23	116,515,912.00	117,091,117.79	123,183,569.00	122,428,960.00
Classified Salaries	41,963,932.00	36,486,746.36	40,560,668.00	40,085,014.62	44,435,583.00	44,418,557.00
Employee Benefits	54,069,643.00	51,793,482.80	57,025,188.00	55,957,350.72	62,845,506.00	62,699,475.00
Books and Supplies	14,482,330.00	15,117,847.56	18,030,112.00	20,481,841.13	17,146,107.00	17,963,779.78
Services, Other Operating Expenses	23,418,795.00	32,833,346.31	30,113,398.00	35,653,489.64	35,845,828.00	37,726,085.99
Capital Outlay	3,250,760.00	6,527,579.23	1,177,944.00	2,362,169.90	817,346.00	765,230.00
Other Outgo (excluding Direct Support/Indirect Costs)	4,263,162.00	4,134,433.96	3,766,113.00	3,993,381.16	4,284,296.00	4,284,296.00
Other Outgo - Transfers of Indirect Costs	(790,039.00)	(889,313.66)	(868,119.00)	(758,472.66)	(987,959.00)	(970,518.00)
TOTAL EXPENDITURES	251,659,921.00	256,291,538.79	266,321,216.00	274,865,892.30	287,570,276.00	289,315,865.77
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(3,533,180.00)	(1,360,647.61)	(13,699,684.00)	(11,110,826.14)	(4,132,972.00)	(5,230,120.42)
OTHER FINANCING SOURCES (USES)						
Inter-fund Transfers In	2,041,023.00	4,704,548.00	4,298,285.00	5,860,845.63	5,508,854.00	5,508,854.00
Inter-fund Transfers Out	(643,747.00)	(3,959,624.97)	(1,995,000.00)	(3,086,140.28)	(2,995,000.00)	(3,295,000.00)
Other Sources (Uses)	-	-	-	-	-	-
Contributions	-	-	-	-	-	-
TOTAL, OTHER FINANCING SOURCES (USES)	1,397,276.00	744,923.03	2,303,285.00	2,774,705.35	2,513,854.00	2,213,854.00
NET INCREASE (DECREASE) IN FUND BALANCE	(2,135,904.00)	(615,724.58)	(11,396,399.00)	(8,336,120.79)	(1,619,118.00)	(3,016,266.42)
BEGINNING BALANCE, as of July 1	29,656,768.00	35,120,610.80	34,540,423.00	34,504,886.22	24,367,610.00	26,168,765.43
ENDING BALANCE	$27,520,864.00	$34,504,886.22	$23,144,024.00	$26,168,765.43	$22,748,492.00	$23,152,499.01
Unrestricted Ending Balance	$25,768,785.00	$30,380,435.04	$21,081,388.00	$23,352,009.57	$20,740,037.00	$20,010,836.03
Restricted Ending Balance	$1,752,079.00	$4,124,451.18	$2,062,636.00	$2,816,755.86	$2,008,455.00	$3,141,662.98

(1) The general fund balances reflected in the unaudited actuals for fiscal years 2016-17 and 2017-18 differ from the District's audited financial statements for such years due to the consolidation of Fund 20, Special Reserve Fund for Postemployment Benefits in the general fund for purposes of the District's audited financial statements.
(2) Figures are projections.
Source: Hemet Unified School District adopted general fund budgets for fiscal years 2016-17 through 2018-19; unaudited actuals for fiscal years 2015-16 and 2017-18; and first interim report for fiscal year 2018-19.

District Debt Structure

Long-Term Debt Summary. A schedule of changes in the District's long-term obligations for the year ended June 30, 2018, consisted of the following:

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018	Due Within One Year
Governmental Activities					
General Obligation Bonds[(1)]	$169,720,000	$ -	$5,425,000	$164,295,000	$5,745,000
Premium on issuance	8,441,026	-	396,030	8,044,996	-
Discount on issuance	(83,016)	-	(6,918)	(76,098)	-
Certificates of Participation	50,832,297	-	2,212,955	48,619,342	2,315,912
Premium on issuance	4,582,751	-	297,811	4,284,940	-
Discount on issuance	(66,495)	-	(3,410)	(63,085)	-
Capital Leases	181,569	-	88,859	92,710	92,710
Compensated Absences Payable	856,863	45,784	-	902,647	-
Claims Liability	5,273,552	4,506,442	1,658,336	8,121,658	1,348,000
Net Other Postemployment (OPEB) Liability	26,885,264	3,648,004	1,121,658	29,411,610	-
Total Governmental Activities	$261,097,612	$8,200,230	$11,190,321	$263,633,720	$9,501,622
Business-Type Activities					
Capital Leases	$4,718,799	$ -	$732,319	$3,986,480	$968,004
Compensated Absences Payable	197,693	17,189	-	214,882	-
Net Other Postemployment (OPEB) Obligation	2,064,106	299,361	77,312	2,286,155	-
Total Business-Type Activities	$5,308,555	$316,550	$809,631	$6,487,517	$968,004

(1) Does not include the Series A Bonds.
Source: Hemet Unified School District Audited Financial Report for fiscal year 2017-18.

General Obligation Bonds. In addition to the Series A Bonds, the District has outstanding four additional series of general obligation bonds, each of which is secured by *ad valorem* taxes levied upon all property subject to taxation by the District on a parity with the Series A Bonds.

See "THE SERIES A BONDS – Outstanding Bonds" and "– Aggregate Debt Service" in the front portion of this Official Statement for more information about such outstanding bonds.

Certificates of Participation. The District has executed and delivered five series of certificates of participation ("COPs") that are currently outstanding. The description of each series of outstanding is set forth below.

Qualified Zone Academy Bond Certificates of Participation (QZAB). On December 13, 2005, the District executed and delivered its Qualified Zone Academy Bond Program certificates of participation in the aggregate principal amount of $5,000,000 (the "QZABs"). The QZABs represent interest free financing for the District. Owners of the QZABs receive a federal tax credit in lieu of charging the District interest on the QZABs. The QZABs mature on December 27, 2020. The District received net proceeds of $4,876,231 (after payment of $123,769 in underwriter fees and issuance costs). The District began making annual deposits of $275,665 on December 27, 2006, into an investment account with U.S. Bank National Association for payment of the QZABs at maturity. Fifteen payments will be made from December 27, 2006 to December 27, 2020, which will total $4,134,975.

The required payments through December 27, 2020, are as follows:

Fiscal Year Ending June 30,	Required Payments
2019	$275,665
2020	275,665
2021	275,665
Total Remaining Payments	826,995
Cumulative payments made by the County Office of Education	3,895,658
Projected cumulative interest earnings	277,347
Total obligation	$5,000,000
Remaining obligation to be funded with required payments and interest earnings	$1,104,342

Source: Hemet Unified School District Audited Financial Report for fiscal year 2017-18.

2007 Certificates of Participation. On November 21, 2007, the District, pursuant to a lease agreement with the Hemet Unified School District Facilities Corporation (the "Corporation"), executed and delivered its Series 2007 Certificates of Participation (2007 School Facilities Project) in the aggregate principal amount of $4,610,000 (the "2007 COPs"). The 2007 COPs were executed and delivered to finance the acquisition and construction of school facilities, fund a reserve account and pay costs associated with the execution and delivery of the 2007 COPs. At June 30, 2018, the principal outstanding was $3,535,000 and unamortized discount was $63,085.

2015 Refunding Certificates of Participation. On September 30, 2015, the District, pursuant to a lease agreement with the Corporation, executed and delivered its 2015 Refunding Certificates of Participation in the amount of $16,690,000 (the "2015 Refunding COPs"). The 2015 Refunding COPs mature on October 1, 2028, with interest yields ranging from 2.00% to 5.00%. The 2015 Refunding COPs were executed and delivered to refinance two prior outstanding lease obligations of the District. At June 30, 2018, the principal outstanding was $14,545,000 and unamortized discount was $1,100,652.

2016 Refunding Certificates of Participation. On September 30, 2016, the District, pursuant to a lease agreement with the Corporation, executed and delivered its 2016 Refunding Certificates of Participation, Series A (Tax Exempt), in the amount of $23,965,000 (the "2016A Refunding COPs"), and 2016 Refunding Certificates of Participation, Series B (Federally Taxable), in the amount of $6,225,000 (the "2016B Refunding COPs" and together with the 2016A Refunding COPs, the "2016 Refunding COPs"). The 2016A Refunding COPs mature on October 1, 2034, with interest yields ranging from 3.00% to 5.00%. At June 30, 2018, the principal of the 2016A Refunding COPs outstanding was $23,965,000 and unamortized premium was $3,184,288. The 2016B Refunding COPs mature on October 1, 2023, with interest yields ranging from 1.592% to 2.739%. At June 30, 2018, the principal of the 2016B Refunding COPs outstanding was $5,470,000. The 2016 Refunding COPs were executed and delivered to refinance a prior outstanding lease obligation of the District.

The outstanding COPs executed and delivered by the District are as follows:

Issue Date	Maturity Date	Original Issue	Outstanding July 1, 2017	Issued	Redeemed	Outstanding June 30, 2018
12/13/05	12/27/20	$ 5,000,000	$1,477,297	$ -	$ 372,955	$1,104,342
11/21/07	10/01/36	4,610,000	3,535,000	-	-	3,535,000
09/30/15	10/01/28	16,690,000	15,630,000	-	1,085,000	14,545,000
09/30/16	10/01/34	23,965,000	23,965,000	-	-	23,965,000
09/30/16	10/01/23	6,225,000	6,225,000	-	755,000	5,470,000
		$56,490,000	$50,832,297	$ -	$2,212,955	$48,619,342

The COPs mature through 2036 as follows:

Year ending June 30,		Principal	Interest to Maturity	Total
2019		$2,315,912	$1,827,024	$4,142,936
2020		2,449,087	1,765,886	4,214,973
2021		2,524,343	1,711,166	4,235,509
2022		2,285,000	1,651,692	3,936,692
2023		2,980,000	1,582,556	4,562,556
2024-2028		14,300,000	6,146,988	20,446,988
2029-2033		13,740,000	2,925,019	16,665,019
2034-2036		8,025,000	435,663	8,460,663
	Totals	$48,619,342	$18,045,994	$66,665,336

Source: Hemet Unified School District Audited Financial Report for fiscal year 2017-18.

Capital Leases (Governmental Activities). The District's liability on lease agreements with options to purchase is summarized below.

	Energy Management Equipment
Balance, July 1, 2017	$193,456
Payments	96,728
Balance, June 30, 2018	$96,728

The capital leases have minimum lease payments as follows:

Year ending June 30,	Lease Payments
2019	$96,728
Less: Amount Representing Interest	4,018
Present Value of Minimum Lease Payments	92,710

Source: Hemet Unified School District Audited Financial Report for fiscal year 2017-18.

Capital Leases (Business-Type Activities). The District's liability on lease agreements with options to purchase is summarized below.

	Buses
Balance, July 1, 2017 (as Restated)	$5,131,826
Payments	863,304
Balance, June 30, 2018	$4,268,522

The capital leases have minimum lease payments as follows:

Year ending June 30,	Lease Payments
2019	$1,065,843
2020	1,065,846
2021	1,065,847
2022	401,338
2023	267,859
2024-2025	401,789
Total	$4,268,522
Less: Amount Representing Interest	282,042
Present Value of Minimum Lease Payments	$3,986,480

Source: Hemet Unified School District Audited Financial Report for fiscal year 2017-18.

Accumulated Unpaid Employee Vacation. The long-term portion of accumulated unpaid employee vacation for the District and the Business-Type Activities at June 30, 2018, was $902,647 and $214,882, respectively.

Claims Liability. The District has an outstanding long-term liability for claims for the District's Workers' Compensation Insurance Program in the amount of $8,121,658.

Other Post-Employment Benefits (OPEBs). In addition to the retirement plan benefits with CalSTRS, the State Public Employees' Retirement System ("CalPERS") and the State Teachers Retirement Plan ("STRP") (see "– Retirement Benefits" below), the District participates in the Postemployment Benefits Plan (the "Plan"), which is a single-employer, defined benefit healthcare plan that is used to provide postemployment benefits other than pensions ("OPEB"), consisting of medical and dental insurance benefits, for eligible retirees and their spouses. Benefits are provided through a third-party insurer, and the full costs of benefits is covered by the Plan. The Governing Board of the District has the authority to establish and amend the benefit terms as contained within the negotiated labor agreements as described below. At June 30, 2018, membership of the Plan consisted of 95 inactive employees or beneficiaries currently receiving benefit payments and 2,521 active Plan members.

In June 2015, the Governmental Accounting Standards Board ("GASB") issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions ("Statement Number 75"). Other post-employment benefits (meaning other than pension benefits) ("OPEB") generally include post-employment health benefits (medical, dental, vision, prescription drug and mental health), life insurance, disability benefits and long term care benefits. The objective of Statement Number 75 is to improve accounting and financial reporting by the State and local governments for OPEB by requiring the recognition of entire OPEB liability, a more comprehensive measure of OPEB expense, new note disclosures and certain required supplementary information. In addition, Statement Number 75 sets forth additional accounting methods to improve the usefulness of information about OPEB included in the general purpose external financial reports of State and local governmental OPEB plans for making decisions and assessing accountability. Statement Number 75 results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. Statement Number 75 replaces GASB Statements Number 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and Number 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans. Statement Number 75 is effective for periods beginning after June 15, 2017. The District has implemented Statement Number 75 for fiscal year 2017-18.

The contribution requirements of Plan members and the District are established and may be amended by the District and the Teacher Education Association ("TEA"), the local California Service Employees Association ("CSEA"), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually through the agreements with the District, TEA, CSEA and the unrepresented groups. For fiscal year 2017-18, the District contributed $1,019,434 to the Plan, of which $379,228 was used for current premiums. No assets are accumulated in a trust that meets the criteria of GASB Statement No. 75. For a description of the District's Plan, see Note 10 to the District's financial statements attached hereto as APPENDIX B − "FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2018."

Total Compensation Systems, Inc., Westlake Village, California, has prepared an actuarial valuation (the "Actuarial Valuation") covering the District's retiree health benefits and reports that, as of June 30, 2018 valuation date, for current employees, the value of benefits "accrued" in the year beginning July 1, 2018 (the service cost) is $2,958,458. This service cost would increase each year based on covered payroll. According to the Actuarial Valuation, had the District begin accruing retiree health benefits when each current employee and retiree was hired, a substantial liability would have accumulated. The Actuarial Valuation estimates the amount that would have accumulated to be $30,145,139, which is referred to as the total OPEB liability. The Actuarial Valuation further estimates that the "pay-as-you-go" cost of providing retiree health benefits in fiscal year 2018-19 will be $1,060,211. The Actuarial Valuation assumes, among other things, 2.75% inflation rate per year, 3.8% investment return/discount rate per year (net of administrative expenses), an annual healthcare cost trend rate of 4% and a 2.75% payroll increase per year.

Special Tax Bonds. The District has formed a number of community facilities districts which have issued special tax bonds under the Mello-Roos Community Facilities Act of 1982, as amended. Such special tax bonds are payable for special taxes levied on property within the respective community facilities districts. Such special tax bonds are not payable from *ad valorem* taxes to be levied within the District and do not represent a debt of the District. Other special taxes and assessments may be levied from time to time on property within the District. See Note 11 to the District's financial statements attached hereto as APPENDIX B − "FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2018."

Tax and Revenue Anticipation Notes. Because District revenues from local property taxes and State apportionments are received at irregular intervals throughout the year, while expenditures tend to be incurred on a regular monthly basis, the District has usually found it necessary to borrow for short-term cash needs by issuance of tax and revenue anticipation notes each year. The District's notes are a general obligation of the District, payable from the District's general fund and any other lawfully available moneys, but for which the District has no taxing authority. The table below sets forth the District's issuance of tax and revenue anticipation notes for the past five fiscal years.

Issuance Date	Principal Amount	Interest Rate	Yield	Due Date
February 27, 2013	$21,310,000	2.000%	0.210%	October 1, 2013
July 15, 2013	4,470,000	2.000	0.200	April 1, 2014
July 3, 2014	6,675,000	2.000	0.120	June 30, 2015
July 16, 2015	6,720,000	2.000	0.320	June 30, 2016
July 14, 2016	10,690,000	2.000	0.630	June 30, 2017
July 6, 2017	7,900,000	3.000	0.930	June 29, 2018

In fiscal year 2017-18, the District issued $7,900,000 aggregate principal amount of tax and revenue anticipation notes (the "Series 2017 Notes"), dated July 6, 2017, through the California School Cash

Reserve Program Authority. The Series 2017 Notes matured on June 30, 2018 and yielded 0.930%. The District currently does not expect to issue any tax and revenue anticipation notes in fiscal year 2018-19.

Employment

As of December 2018, the Full-Time-Equivalent (FTE) staff employed by the District totaled 13000.85 FTE certificated employees and 1268.78 FTE classified employees. For fiscal year 2017-18, the total certificated and classified payrolls for the general fund only were approximately $117.09 million and $40.08 million, respectively, and are projected to be approximately $122.43 million and $44.42 million, respectively, in fiscal year 2017-18. These employees, except management, supervisory and temporary employees, are represented by the bargaining units as noted below.

Name of Bargaining Unit	Number of FTEs Represented	Current Contract Expiration Date
Hemet Teachers Association, CTA/NEA	1,209.23	June 30, 2019
California School Employees Association (Hemet Chapter 104)	1,198.78	June 30, 2019

Source: Hemet Unified School District.

Retirement Benefits

The District participates in retirement plans with CalSTRS, which covers all full-time certificated District employees, including teachers and administrators, and CalPERS, which covers certain classified employees. Classified school personnel who are employed four or more hours per day may participate in CalPERS.

CalSTRS. Contributions to CalSTRS are fixed in statute. For fiscal year 2013-14, covered employees contributed 8.00% of salary to CalSTRS, while school districts contributed 8.25%. In addition to the teacher and school contributions, the State contributed 4.517% of teacher payroll to CalSTRS (calculated on payroll data from two fiscal years ago). Prior to fiscal year 2014-15 and unlike typical defined benefit programs such as those administered by CalPERS, neither the CalSTRS employer nor the State contribution rate varied annually to make up funding shortfalls or assess credits for actuarial surpluses. The State does pay a surcharge when the member and school district contributions are not sufficient to fully fund the basic defined benefit pension (generally consisting of 2% of salary for each year of service at age 60 referred to herein as "pre-enhancement benefits") within a 30-year period. However, this surcharge does not apply to system-wide unfunded liability resulting from recent benefit enhancements.

As part of the 2014-15 State Budget, the Governor signed Assembly Bill 1469 which implemented a new funding strategy for CalSTRS and increased the employer contribution rate in fiscal year 2014-15 from 8.25% to 8.88% of covered payroll. Such rate increased by 1.85% beginning in fiscal year 2015-16 until the employer contribution rate is 19.10% of covered payroll as further described below. AB 1469 increased member contributions, which were previously set at 8.00% of pay, to 10.25% of pay for members hired on or before December 31, 2012 and 9.205% of pay for members hired on or after January 1, 2013 effective July 1, 2016. However, on July 1, 2018, for members hired on or after January 1, 2013, the rate increased from 9.205% of pay to 10.250% of pay. The State's total contribution also increased from approximately 3% in fiscal year 2013-14 to 6.828% of payroll in fiscal year 2017-18, plus the continued payment of 2.5% of payroll annual for a supplemental inflation protection program for a total of 9.328%. In addition, AB 1469 provides the State Teachers Retirement Board with authority to modify the percentages paid by employers and employees for fiscal year 2021-22 and each fiscal year thereafter to eliminate the CalSTRS unfunded liability by June 30, 2046. The State Teachers Retirement Board would also have authority to reduce employer and State contributions if they are no longer necessary.

On February 1, 2017, the State Teachers' Retirement Board voted to adopt revised actuarial assumptions reflecting members' increasing life expectancies and current economic trends. The revised assumptions include a decrease from 7.50% to a 7.25% investment rate of return for the June 30, 2016 actuarial valuation, a decrease from 7.25% to a 7.00% investment rate of return for the June 30, 2017 actuarial valuation, a decrease from 3.75% to a 3.50% projected wage growth, and a decrease from 3.00% to a 2.75% price inflation factor.

As of June 30, 2017, an actuarial valuation (the "2017 CalSTRS Actuarial Valuation") for the entire CalSTRS defined benefit program showed an estimated unfunded actuarial liability of $107.3 billion, an increase of approximately $10.6 million from the June 30, 2016 valuation. The funded ratios of the actuarial value of valuation assets over the actuarial accrued liabilities as of June 30, 2017, June 30, 2016 and June 30, 2015, based on the actuarial assumptions, were approximately 62.6%, 63.7%, and 68.5%, respectively. Future estimates of the actuarial unfunded liability may change due to market performance, legislative actions and other experience that may differ from the actuarial assumptions. The following are certain of the actuarial assumptions set forth in the 2017 CalSTRS Actuarial Valuation: measurement of accruing costs by the "Entry Age Normal Actuarial Cost Method," a 7.00% investment return assumption consistent with the State Teachers' Retirement Board's decision on February 1, 2017, 3.00% interest on member accounts, projected 3.50% wage growth, projected 2.75% inflation and demographic assumptions relating to mortality rates, length of service, rates of disability, rates of withdrawal, probability of refund, and merit salary increases. The 2017 CalSTRS Actuarial Valuation also assumes that all members hired on or after January 1, 2013 are subject to the provisions of PEPRA (as defined herein). See "−Governor's Pension Reform" below for a discussion of the pension reform measure signed by the Governor in August 2012 expected to help reduce future pension obligations of public employers with respect to employees hired on or after January 1, 2013. Future estimates of the actuarial unfunded liability may change due to market performance, legislative actions, changes in actuarial assumptions and other experiences that may differ from the actuarial assumptions.

Pursuant to Assembly Bill 1469, school district's contribution rates will increase in accordance with the following schedule:

Effective Date (July 1)	School District Contribution Rate
2014	8.88%
2015	10.73
2016	12.58
2017	14.43
2018	16.28
2019	18.13
2020	19.10

Source: Assembly Bill 1469.

The following table sets forth the District's total employer contributions to CalSTRS and the State's required non-employer contribution for fiscal years 2014-15 through 2017-18 and the projected contributions for fiscal year 2018-19.

HEMET UNIFIED SCHOOL DISTRICT
(Riverside County, California)
Contributions to CalSTRS for Fiscal Years 2014-15 through 2018-19

Fiscal Year	District Contribution	State's STRS On-Behalf Amounts
2014-15	$ 8,384,699	$ 4,419,047
2015-16	11,242,667	5,845,568
2016-17	13,901,736	8,118,080
2017-18	17,016,552	9,069,430
2018-19(1)	19,188,144	10,033,800

(1) Projected based on first interim report for fiscal year 2018-19.
Source: Hemet Unified School District

The District's total employer contributions to CalSTRS for fiscal years 2014-15 through 2017-18 were equal to 100% of the required contributions for each year. With the implementation of AB 1469, the District anticipates that its contributions to CalSTRS will increase in future fiscal years as compared to prior fiscal years.

The District, nonetheless, is unable to predict all factors or any changes in law that could affect its required contributions to CalSTRS in future fiscal years.

CalSTRS produces a comprehensive annual financial report and actuarial valuations which include financial statements and required supplementary information. Copies of the CalSTRS comprehensive annual financial report and actuarial valuations may be obtained from CalSTRS. The information presented in these reports is not incorporated by reference in this Official Statement.

CalPERS. All qualifying classified employees of K-12 districts in the State are members in CalPERS, and all of such districts participate in the same plan. As such, all such districts share the same contribution rate in each year. However, unlike school districts' participating in CalSTRS, the school districts' contributions to CalPERS fluctuate each year and include a normal cost component and a component equal to an amortized amount of the unfunded liability. Accordingly, the District cannot provide any assurances that the District's required contributions to CalPERS in future years will not significantly vary from any current projected levels of contributions to CalPERS.

The districts are currently required to contribute to PERS at an actuarially determined rate, which was 11.847%, 13.888% and 15.531% of eligible salary expenditures for fiscal years 2015-16, 2016-17, and 2017-18, respectively, and 18.062% of eligible salary expenditures for fiscal year 2018-19. Plan participants enrolled in PERS prior to January 1, 2013 contribute 7% of their respective salaries, while participants enrolled after January 1, 2013 contribute at an actuarially determined rate, which was 6% of their respective salaries in fiscal years 2015-16 and 2016-17, 6.50% in fiscal year 2017-18 and 7.00% in fiscal year 2018-19.

On April 17, 2013, the PERS board of administration (the "PERS Board") approved new actuarial policies aimed at returning PERS to fully-funded status within 30 years. The policies include a rate smoothing method with a 30-year amortization period for gains and losses and a five-year ramp-up of rates at the start and a five year ramp-down of rates at the end. The PERS Board delayed the implementation of the new policies until fiscal year 2015-16 for the State, schools and all other public agencies. In December 2016, the PERS Board voted to lower the discount rate from 7.5% to 7.375% for fiscal year 2017-18, 7.25% for fiscal year 2018-19 and 7.0% beginning in fiscal year 2019-20. The new discount rate for the State went into effect beginning July 1, 2017 and the new discount rate for school districts became effective July 1, 2018. With regards to districts that contract with PERS to administer their pension plans, the change in the assumed rate of return is expected to result in increases in such districts' normal costs and unfunded actuarial liabilities.

Also, on February 20, 2014, the PERS Board approved new demographic assumptions reflecting (i) expected longer life spans of public agency employees and related increases in costs for the PERS system and (ii) trends of higher rates of retirement for certain public agency employee classes, including police officers and firefighters. The cost of the revised assumptions shall be amortized over a 20 year period and related increases in public agency contribution rates shall be affected over a three year period, beginning in fiscal year 2014-15. The new demographic assumptions affect the State, school districts and all other public agencies.

The PERS Board is required to undertake an experience study every four years under its Actuarial Assumptions Policy and State law. As a result of the most recent experience study, on December 20, 2017, the PERS Board approved new actuarial assumptions, including (i) lowering the inflation assumption rate from 2.75% to 2.625% for the June 30, 2018 actuarial valuation and to 2.50% for the June 30, 2019 actuarial valuation, (ii) lowering the payroll growth rate to 2.875% for the June 30, 2018 actuarial valuation and 2.75% for the June 30, 2019 actuarial valuation, (iii) and certain changes to demographic assumptions relating to the salary scale for most constituent groups, and modifications to the mortality, retirement, and disability retirement rates.

On February 14, 2018, the PERS Board approved modifying the PERS amortization policy for investment gains/losses from 30 years to 20 years, requiring that the amortization payments for all unfunded accrued liability bases established after the effective date be computed to remain a level dollar amount throughout the amortization period, and eliminating the 5-year ramp-up/ramp-down policy for all gains/losses except for the ramp-up policy for investment gains/losses. Such policy changes will be reflected in actuarial valuations beginning June 30, 2019, and will be implemented starting with fiscal year 2021-22 contributions. Such policy applies only to prospective accumulation of amortization and will not affect current accrued unfunded liabilities, with the exception that, with regards to the PERS Schools Pool Actuarial Valuation, the impact of the discount rate change from 7.25% to 7.00% in the June 30, 2019 valuation will be amortized under the old policy. Shortening the amortization period will increase employer contributions and help pay down the pension fund's unfunded liability faster, which may result in interest cost savings.

On April 18, 2018, the PERS Board established the employer contribution rates for fiscal year 2018-19 and released certain information from the PERS Schools Pool Actuarial Valuation as of June 30, 2017, ahead of its summer 2018 release date. Based on the changes in the discount rate, inflation rate, payroll growth rate and demographic assumptions, along with expected reductions in normal cost due to the continuing transition of active members from those employees hired prior to the Implementation Date (defined below), to those hired after such date, the projected contribution for fiscal year 2019-20 is projected to be 20.8%, with annual increases thereafter, resulting in a projected 25.7% employer contribution rate for fiscal year 2025-26.

The table on the following page sets forth the District's total employer contributions to CalPERS for fiscal years 2014-15 through 2017-18 and the projected contribution for fiscal year 2018-19.

HEMET UNIFIED SCHOOL DISTRICT
(Riverside County, California)
Contributions to CalPERS for Fiscal Years 2014-15 through 2018-19

Fiscal Year	Contribution
2014-15	$ 4,893,040
2015-16	6,923,838
2016-17	7,508,610
2017-18	10,101,165
2018-19[1]	12,954,866

(1) Projected based on first interim report for fiscal year 2018-19.
Source: Hemet Unified School District

The District's total employer contributions to CalPERS for fiscal years 2014-15 through 2017-18 were equal to 100% of the required contributions for each year. With the change in actuarial assumptions described above, the District anticipates that its contributions to CalPERS will increase in future fiscal years as the increased costs are phased in. The implementation of PEPRA (see "−Governor's Pension Reform" below), however, is expected to help reduce certain future pension obligations of public employers with respect to employees hired on or after January 1, 2013. The District cannot predict the impact these changes will have on its contributions to CalPERS in future years.

CalPERS produces a comprehensive annual financial report and actuarial valuations that include financial statements and required supplementary information. Copies of the CalPERS comprehensive annual financial report and actuarial valuations may be obtained from CalPERS Financial Services Division. The information presented in these reports is not incorporated by reference in this Official Statement.

Governor's Pension Reform. On August 28, 2012, Governor Brown and the State Legislature reached agreement on a new law that reforms pensions for State and local government employees. AB 340, which was signed into law on September 12, 2012, established the California Public Employees' Pension Reform Act of 2012 ("PEPRA") which governs pensions for public employers and public pension plans on and after January 1, 2013. For new employees, PEPRA, among other things, caps pensionable salaries at the Social Security contribution and wage base, which is $127,200 for 2017, or 120% of that amount for employees not covered by Social Security, increases the retirement age by two years or more for all new public employees while adjusting the retirement formulas, requires state employees to pay at least half of their pension costs, and also requires the calculation of benefits on regular, recurring pay to stop income spiking. For all employees, changes required by PEPRA include the prohibition of retroactive pension increases, pension holidays and purchases of service credit. PEPRA applies to all State and local public retirement systems, including county and district retirement systems. PEPRA only exempts the University of California system and charter cities and counties whose pension plans are not governed by State law. Although the District anticipates that PEPRA would not increase the District's future pension obligations, the District is unable to determine the extent of any impact PEPRA would have on the District's pension obligations at this time. Additionally, the District cannot predict if PEPRA will be challenged in court and, if so, whether any challenge would be successful.

The District is unable to predict what the amount of State pension liabilities will be in the future, or the amount of the contributions which the District may be required to make. CalSTRS and CalPERS are more fully described in Note 14 to the District's financial statements attached hereto as APPENDIX B − "FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2018."

GASB 67 and 68. In June 2012, the Governmental Accounting Standards Board approved a pair of related statements, Statement Number 67, Financial Reporting for Pension Plans ("Statement Number 67"), which addresses financial reporting for pension plans, and Statement Number 68, Accounting and Financial Reporting for Pensions ("Statement Number 68"), which establishes new accounting and financial reporting requirements for governments that provide their employees with pensions. The guidance contained in these statements will change how governments calculate and report the costs and obligations associated with pensions. Statement Number 67 replaces the current requirements of Statement Number 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, for most public employee pension plans, and Statement Number 27 replaces the current requirements of Statement Number 27, Accounting for Pensions by State and Local Governmental Employers, for most government employers. The new statements also replace the requirements of Statement Number 50, Pension Disclosures, for those governments and pension plans. Certain of the major changes include: (i) the inclusion of unfunded pension liabilities on the government's balance sheet (such unfunded liabilities were typically included as notes to the government's financial statements); (ii) full pension costs are shown as expenses regardless of actual contribution levels; (iii) lower actuarial discount rates are required to be used for most plans for certain purposes of the financial statements, resulting in increased liabilities and pension expenses; and (iv) shorter amortization periods for unfunded liabilities are required to be used for certain purposes of the financial statements, which generally increases pension expenses. Statement Number 67 became effective beginning in fiscal year 2013-14, and Statement Number 68 became effective beginning in fiscal year 2014-15.

Insurance, Risk Pooling and Joint Powers Agreements and Joint Ventures

The District is a member of the Southern California Regional Liability Excess Fund (SoCal ReLiEF), a joint powers authority ("JPA"). The District pays an annual premium for its property liability coverage. The relationship between the District and the JPA is such that it is not component unit of the District for financial reporting purposes.

The JPA has budgeting and financial reporting requirements independent of member units. During fiscal year 2018-19, the District made payments of $1,383,737 to SoCal ReLiEF for services received. Fund transactions between the JPA and the District.

See Note 16 to the District's audited financial statements attached hereto as APPENDIX B—"FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2018" for more information.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

Limitations on Revenues

On June 6, 1978, California voters approved Proposition 13 ("Proposition 13"), which added Article XIIIA to the State Constitution ("Article XIIIA"). Article XIIIA limits the amount of any *ad valorem* tax on real property to 1% of the full cash value thereof, except that additional *ad valorem* taxes may be levied to pay debt service on (i) indebtedness approved by the voters prior to July 1, 1978, (ii) bonded indebtedness for the acquisition or improvement of real property which has been approved on or after July 1, 1978 by two-thirds of the voters on such indebtedness, and (iii) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% of the voters of the district, but only if certain accountability measures are included in the proposition. Article XIIIA defines full cash value to mean "the county assessor's valuation of real property as shown on the

1975-76 tax bill under full cash value, or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership have occurred after the 1975 assessment." This full cash value may be increased at a rate not to exceed 2% per year to account for inflation.

Article XIIIA has subsequently been amended to permit reduction of the "full cash value" base in the event of declining property values caused by damage, destruction or other factors, to provide that there would be no increase in the "full cash value" base in the event of reconstruction of property damaged or destroyed in a disaster and in other minor or technical ways.

County of Orange v. Orange County Assessment Appeals Board No. 3. Section 51 of the Revenue and Taxation Code permits county assessors who have reduced the assessed valuation of a property as a result of natural disasters, economic downturns or other factors, to subsequently "recapture" such value (up to the pre-decline value of the property) at an annual rate higher than 2%, depending on the assessor's measure of the restoration of value of the damaged property. The constitutionality of this procedure was challenged in a lawsuit brought in 2001 in the Orange County Superior Court, and in similar lawsuits brought in other counties, on the basis that the decrease in assessed value creates a new "base year value" for purposes of Proposition 13 and that subsequent increases in the assessed value of a property by more than 2% in a single year violate Article XIIIA. On appeal, the California Court of Appeal upheld the recapture practice in 2004, and the State Supreme Court declined to review the ruling, leaving the recapture law in place.

Legislation Implementing Article XIIIA. Legislation has been enacted and amended a number of times since 1978 to implement Article XIIIA. Under current law, local agencies are no longer permitted to levy directly any property tax (except to pay voter-approved indebtedness). The 1% property tax is automatically levied by the county and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1989.

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the 2% annual adjustment are allocated among the various jurisdictions in the "taxing area" based upon their respective "situs." Any such allocation made to a local agency continues as part of its allocation in future years.

The tax rate is expressed as $1 per $100 of taxable value. All taxable property value included in this Official Statement is shown at 100% of market value (unless noted differently) and all tax rates reflect the $1 per $100 of taxable value.

Article XIIIB of the California Constitution

An initiative to amend the State Constitution entitled "Limitation of Government Appropriations" was approved on September 6, 1979, thereby adding Article XIIIB to the State Constitution ("Article XIIIB"). Under Article XIIIB state and local governmental entities have an annual "appropriations limit" and are not permitted to spend certain moneys which are called "appropriations subject to limitation" (consisting of tax revenues, state subventions and certain other funds) in an amount higher than the "appropriations limit." Article XIIIB does not affect the appropriation of moneys which are excluded from the definition of "appropriations subject to limitation," including debt service on indebtedness existing or authorized as of January 1, 1979, or bonded indebtedness subsequently approved by the voters. In general terms, the "appropriations limit" is to be based on certain 1978-79 expenditures, and is to be adjusted annually to reflect changes in consumer prices, populations, and services provided by these entities. Among other provisions of Article XIIIB, if these entities' revenues in any year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years. Any proceeds of taxes received by the District in excess of the allowable limit are absorbed into the State's allowable limit.

Article XIIIC and Article XIIID of the California Constitution

On November 5, 1996, the voters of the State of California approved Proposition 218, popularly known as the "Right to Vote on Taxes Act." Proposition 218 added to the California Constitution Articles XIIIC and XIIID ("Article XIIIC" and "Article XIIID," respectively), which contain a number of provisions affecting the ability of local agencies, including school districts, to levy and collect both existing and future taxes, assessments, fees and charges.

According to the "Title and Summary" of Proposition 218 prepared by the California Attorney General, Proposition 218 limits "the authority of local governments to impose taxes and property-related assessments, fees and charges." Among other things, Article XIIIC establishes that every tax is either a "general tax" (imposed for general governmental purposes) or a "special tax" (imposed for specific purposes), prohibits special purpose government agencies such as school districts from levying general taxes, and prohibits any local agency from imposing, extending or increasing any special tax beyond its maximum authorized rate without a two-thirds vote; and also provides that the initiative power will not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. Article XIIIC further provides that no tax may be assessed on property other than *ad valorem* property taxes imposed in accordance with Articles XIII and XIIIA of the California Constitution and special taxes approved by a two-thirds vote under Article XIIIA, Section 4. Article XIIID deals with assessments and property-related fees and charges, and explicitly provides that nothing in Article XIIIC or XIIID will be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development.

The District does not impose any taxes, assessments, or property-related fees or charges which are subject to the provisions of Proposition 218. It does, however, receive a portion of the basic 1% *ad valorem* property tax levied and collected by the County pursuant to Article XIIIA of the California Constitution. The provisions of Proposition 218 may have an indirect effect on the District, such as by limiting or reducing the revenues otherwise available to other local governments whose boundaries encompass property located within the District thereby causing such local governments to reduce service levels and possibly adversely affecting the value of property within the District.

Statutory Limitations

On November 4, 1986, State voters approved Proposition 62, an initiative statute limiting the imposition of new or higher taxes by local agencies. The statute (a) requires new or higher general taxes to be approved by two-thirds of the local agency's governing body and a majority of its voters; (b) requires the inclusion of specific information in all local ordinances or resolutions proposing new or higher general or special taxes; (c) penalizes local agencies that fail to comply with the foregoing; and (d) required local agencies to stop collecting any new or higher general tax adopted after July 31, 1985, unless a majority of the voters approved the tax by November 1, 1988.

Appellate court decisions following the approval of Proposition 62 determined that certain provisions of Proposition 62 were unconstitutional. However, the California Supreme Court upheld Proposition 62 in its decision on September 28, 1995 *in Santa Clara County Transportation Authority v. Guardino.* This decision reaffirmed the constitutionality of Proposition 62. Certain matters regarding Proposition 62 were not addressed in the Supreme Court's decision, such as whether the decision applies retroactively, what remedies exist for taxpayers subject to a tax not in compliance with Proposition 62, and whether the decision applies to charter cities.

Proposition 98 and Proposition 111

On November 8, 1988, voters approved Proposition 98, a combined initiative constitutional amendment and statute called the "Classroom Instructional Improvement and Accountability Act" (the "Accountability Act"). The Accountability Act changed State funding of public education below the university level, and the operation of the State's Appropriations Limit. The Accountability Act guarantees State funding for K-12 districts and community college districts (collectively, "K-14 districts") at a level equal to the greater of (a) the same percentage of general fund revenues as the percentage appropriated to such districts in 1986-87, which percentage is equal to 40.9%, or (b) the amount actually appropriated to such districts from the general fund in the previous fiscal year, adjusted for growth in enrollment and inflation.

Since the Accountability Act is unclear in some details, there can be no assurance that the Legislature or a court might not interpret the Accountability Act to require a different percentage of general fund revenues to be allocated to K-14 districts than the 40.9%, or to apply the relevant percentage to the State's budgets in a different way than is proposed in the Governor's Budget. In any event, the Governor and other fiscal observers expect the Accountability Act to place increasing pressure on the State's budget over future years, potentially reducing resources available for other State programs, especially to the extent the Article XIIIB spending limit would restrain the State's ability to fund such other programs by raising taxes.

The Accountability Act also changes how tax revenues in excess of the State Appropriations Limit are distributed. Any excess State tax revenues up to a specified amount would, instead of being returned to taxpayers, be transferred to K-14 districts. Such transfer would be excluded from the Appropriations Limit for K-14 districts and the K-14 districts Appropriations Limits for the next year would automatically be increased by the amount of such transfer. These additional moneys would enter the base funding calculation for K-14 districts for subsequent years, creating further pressure on other portions of the State budget, particularly if revenues decline in a year following an Article XIIIB surplus. The maximum amount of excess tax revenues which could be transferred to schools is 4% of the minimum State spending for education mandated by the Accountability Act, as described above.

On June 5, 1990, California voters approved Proposition 111 (Senate Constitutional Amendment 1), which further modified the Constitution to alter the spending limit and education funding provisions of Proposition 98. Most significantly, Proposition 111 (1) liberalized the annual adjustments to the spending limit by measuring the "change in the cost of living" by the change in State per capita personal income rather than the Consumer Price Index, and specified that a portion of the State's spending limit would be adjusted to reflect changes in school attendance; (2) provided that 50% of the "excess" tax revenues, determined based on a two-year cycle, would be transferred to K-14 districts with the balance returned to taxpayers (rather than the previous 100% but only up to a cap of 4% of the districts' minimum funding level), and that any such transfer to K-14 districts would not be built into the school districts' base expenditures for calculating their entitlement for State aid in the following year and would not increase the State's appropriations limit; (3) excluded from the calculation of appropriations that are subject to the limit appropriations for certain "qualified capital outlay projects" and certain increases in gasoline taxes, sales and use taxes, and receipts from vehicle weight fees; (4) provided that the Appropriations Limit for each unit of government, including the State, would be recalculated beginning in the 1990-91 fiscal year, based on the actual limit for fiscal year 1986-87, adjusted forward to 1990-91 as if Senate Constitutional Amendment 1 had been in effect; and (5) adjusted the Proposition 98 formula that guarantees K-14 districts a certain amount of general fund revenues, as described below.

Under prior law, K-14 districts were guaranteed the greater of (a) 40.9% of general fund revenues (the "first test") or (b) the amount appropriated in the prior year adjusted for changes in the cost of living (measured as in Article XIIIB by reference to per capita personal income) and enrollment (the "second test"). Under Proposition 111, school districts would receive the greater of (a) the first test, (b) the second test or (c) a third test, which would replace the second test in any year when growth in per capita general fund revenues from the prior year was less than the annual growth in State per capita personal income. Under the third test, school districts would receive the amount appropriated in the prior year adjusted for change in enrollment and per capita general fund revenues, plus an additional small adjustment factor. If the third test were used in any year, the difference between the third test and the second test would become a "credit" to be paid in future years when general fund revenue growth exceeds personal income growth.

Assembly Bill No. 26 & *California Redevelopment Association v. Matosantos*

On February 1, 2012, pursuant to the California Supreme Court's decision in *California Redevelopment Association v. Matosantos*, Assembly Bill No. 26 (First Extraordinary Session) ("AB1X 26") dissolved all redevelopment agencies in existence and designated "successor agencies" and "oversight boards" to satisfy "enforceable obligations" of the former redevelopment agencies and administer dissolution and wind down of the former redevelopment agencies. With limited exceptions, all assets, properties, contracts, leases, records, buildings and equipment, including cash and cash equivalents of a former redevelopment agency were transferred to the control of its successor agency and, unless otherwise required pursuant to the terms of an enforceable obligation, distributed to various related taxing agencies pursuant to AB1X 26.

It is possible that there will be additional legislation proposed and/or enacted to clarify various inconsistencies contained in AB1X 26 and there may be additional legislation proposed and/or enacted in the future affecting the current scheme of dissolution and winding up of redevelopment agencies currently contemplated by AB1X 26. For example, AB 1484 was signed by the Governor on June 27, 2012, to clarify and amend certain aspects of AB1X 26. AB 1484, among other things, attempts to clarify the role and requirements of successor agencies, provides successor agencies with more control over agency bond proceeds and properties previously owned by redevelopment agencies and adds other new and modified requirements and deadlines. AB 1484 also provides for a "tax claw back" provision, wherein the State is authorized to withhold sales and use tax revenue allocations to local successor agencies to offset payment of property taxes owed and not paid by such local successor agencies to other local taxing agencies. This "tax claw back" provision has been challenged in court by certain cities and successor agencies. The District cannot predict the outcome of such litigation and what effect, if any, it will have on the District. Additionally, no assurances can be given as to the effect of any such future proposed and/or enacted legislation on the District.

Proposition 30 and Proposition 55

On November 6, 2012, voters approved Proposition 30, also referred to as the Temporary Taxes to Fund Education, Guaranteed Local Public Safety Funding, Initiative Constitutional Amendment. Proposition 30 temporarily (a) increased the personal income tax on certain of the State's income taxpayers by one to three percent for a period of seven years beginning with the 2012 tax year and ending with the 2019 tax year, and (b) increased the sales and use tax by one-quarter percent for a period of four years beginning on January 1, 2013 and ending with the 2016 tax year. The revenues generated from such tax increases are included in the calculation of the Proposition 98 minimum funding guarantee (see "–Proposition 98 and Proposition 111" above). The revenues generated from such temporary tax increases are deposited into a State account created pursuant to Proposition 30 (the Education Protection Account), and 89% of the amounts therein are allocated to school districts and 11% of the amounts therein are allocated to community college districts.

The Proposition 30 sales and use tax increases expired at the end of the 2016 tax year. Under Proposition 30, the personal income tax increases were set to expire at the end of the 2018 tax year. However, the California Tax Extension to Fund Education and Healthcare Initiative ("Proposition 55"), approved by the voters on November 8, 2016, extends by 12 years the temporary personal income tax increases on incomes over $250,000 that was first enacted by Proposition 30; Proposition 55 did not extend the sales tax increases imposed by Proposition 30. Revenues from the income tax increase under Proposition 55 will be allocated to school districts and community colleges in the State.

Applications of Constitutional and Statutory Provisions

The application of Proposition 98 and other statutory regulations has become increasingly difficult to predict accurately in recent years. For a discussion of how the provisions of Proposition 98 have been applied to school funding see "DISTRICT FINANCIAL MATTERS — State Funding of Education; State Budget Process."

Proposition 2

General. Proposition 2, which included certain constitutional amendments to the Rainy Day Fund and, upon its approval, triggered the implementation of certain provisions which could limit the amount of reserves that may be maintained by a school district, was approved by the voters in the November 2014 election.

Rainy Day Fund. The Proposition 2 constitutional amendments related to the Rainy Day Fund (i) require deposits into the Rainy Day Fund whenever capital gains revenues rise to more than 8% of general fund tax revenues; (ii) set the maximum size of the Rainy Day Fund at 10% of general fund revenues; (iii) for the next 15 years, require half of each year's deposit to be used for supplemental payments to pay down the budgetary debts or other long-term liabilities and, thereafter, require at least half of each year's deposit to be saved and the remainder used for supplemental debt payments or savings; (iv) allow the withdrawal of funds only for a disaster or if spending remains at or below the highest level of spending from the past three years; (v) require the State to provide a multiyear budget forecast; and (vi) create a Proposition 98 reserve (the "Public School System Stabilization Account") to set aside funds in good years to minimize future cuts and smooth school spending. The State may deposit amounts into such account only after it has paid all amounts owing to school districts relating to the Proposition 98 maintenance factor for fiscal years prior to fiscal year 2014-15. The State, in addition, may not transfer funds to the Public School System Stabilization Account unless the State is in a Test 1 year under Proposition 98 or in any year in which a maintenance factor is created.

SB 858. Senate Bill 858 ("SB 858") became effective upon the passage of Proposition 2. SB 858 includes provisions which could limit the amount of reserves that may be maintained by a school district in certain circumstances. Under SB 858, in any fiscal year immediately following a fiscal year in which the State has made a transfer into the Public School System Stabilization Account, any adopted or revised budget by a school district would need to contain a combined unassigned and assigned ending fund balance that (a) for school districts with an A.D.A. of less than 400,000, is not more than two times the amount of the reserve for economic uncertainties mandated by the Education Code, or (b) for school districts with an A.D.A. that is more than 400,000, is not more than three times the amount of the reserve for economic uncertainties mandated by the Education Code. In certain cases, the county superintendent of schools may grant a school district a waiver from this limitation on reserves for up to two consecutive years within a three-year period if there are certain extraordinary fiscal circumstances.

The District, which has an A.D.A. of less than 400,000, is required to maintain a reserve for economic uncertainty in an amount equal to 3% of its general fund expenditures and other financing uses.

SB 751. Senate Bill 751 ("SB 751"), enacted on October 11, 2017, alters the reserve requirements imposed by SB 858. Under SB 751, in a fiscal year immediate after a fiscal year in which the amount of moneys in the Public School System Stabilization Account is equal to or exceeds 3% of the combined total general fund revenues appropriated for school districts and allocated local proceeds of taxes for that fiscal year, a school district budget that is adopted or revised cannot have an assigned or unassigned ending fund balance that exceeds 10% of those funds. SB 751 excludes from the requirements of those provisions basic aid school districts (also known as community funded districts) and small school districts having fewer than 2,501 units of average daily attendance.

The Series A Bonds are payable from *ad valorem* taxes to be levied within the District pursuant to the California Constitution and other State law. Accordingly, the District does not expect SB 858 or SB 751 to adversely affect its ability to pay the principal of and interest on the Series A Bonds as and when due.

Future Initiatives

Article XIIIA, Article XIIIB, Article XIIIC, Article XIIID, as well as Propositions 2, 30, 55, 62, 98, 111 and 218, were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time other initiative measures could be adopted, further affecting District revenues or the District's ability to expend revenues.

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APPENDIX B

FINANCIAL STATEMENTS OF THE DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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HEMET UNIFIED SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

JUNE 30, 2018

HEMET UNIFIED SCHOOL DISTRICT

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

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Hemet Unified School District
Hemet, California

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Emphasis of Matter - Change in Accounting Principles

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 14, budgetary comparison schedule on page 82, Schedule of Changes in the District's Total OPEB Liability and Related Ratios on page 83, Schedule of the District's Proportionate Share of the Net OPEB Liability-MPP Program on page 84, schedule of the District's proportionate share of the net pension liability on page 85, and the schedule of District contributions on page 86, 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 Hemet Unified School District's basic financial statements. The accompanying supplementary information such as the combining and individual nonmajor fund financial statements and Schedule of Expenditures of Federal Awards, as required by *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, referred to in the previous paragraph, 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 21, 2018, on our consideration of the Hemet Unified School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Hemet Unified School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hemet Unified School District's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
November 21, 2018

Christi Barrett
Superintendent

Vincent J. Christakos
Assistant Superintendent

Tracy Chambers
Assistant Superintendent

Darel Hansen
Assistant Superintendent

Dr. Karen Valdes
Assistant Superintendent

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

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

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

Governmental Activities are prepared using the economic resources measurement focus and the accrual basis of accounting.

The Business-Type Activities are prepared using the economic resources measurement focus and the accrual basis of accounting.

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

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

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

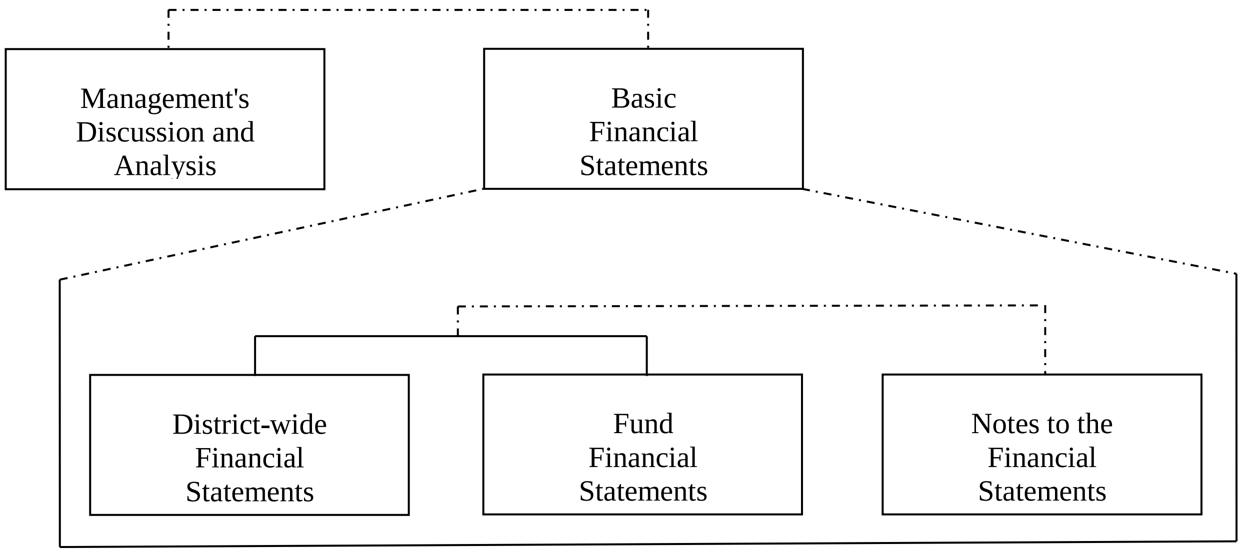
The *Fiduciary Funds* are agency funds, which only report a balance sheet and do not have a measurement focus.

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

The Primary unit of the government is the Hemet Unified School District.

Figure 1

Organization of Hemet Unified School District's Annual Financial Report



FINANCIAL HIGHLIGHTS OF THE PAST YEAR

- Total net position decreased by $33.4 million over the prior year for a new net position of $81.5 million.
- Revenues, transfers in, and other financing sources for all funds, including bond issuances, totaled $329 million. Expenses, transfers out and other uses totaled $362.4 million.
- The General Fund audited ending balance, which includes $4.8 million in Fund 20 - Special Reserve for Post-Employment Benefits, totaled $31.1 million. This represents a decrease of $8.3 million from the prior year.
- No new General Obligation Bonds or capital equipment leases were issued in 2017-18.
- The District's 2017-18 P-2 Average Daily Attendance (ADA), excluding charter schools and students in County programs, was reported at 20,029, an increase of 103 over the prior year.
- The District filed a positive status with both its First and Second Interim reports in 2017-18.

DISTRICT-WIDE STATEMENTS

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.

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

In the *Statement of Net Position* and the *Statement of Activities*, we separate the District activities as follows:

Governmental Activities **-** Most of the District's services are reported in this category. This includes the education of kindergarten through grade twelve students, adult education 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 certificates of participation, finance these activities.

Business-Type Activities **-** The District charges fees to help it cover the costs of certain services it provides. The District's transportation operations are included in this category.

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 - 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.

***Proprietary Funds* -** When the District charges users for the services it provides, whether to outside customers or to other departments within the District, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the *Statement of Net Position* and the *Statement of Revenues, Expenses, and Changes in Fund Net Position*. We use internal service funds to report activities that provide supplies and services for the District's other programs and activities - such as the District's Self-Insurance Fund and Transportation (Enterprise Fund). The internal service funds are reported with governmental activities in the government-wide financial statements.

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

The District's net position was $81.5 million for the fiscal year ended June 30, 2018. Restricted net position is reported separately to show legal constraints from debt covenants, grantors, constitutional provisions, and enabling legislation that limit the governing board's ability to use net position for day-to-day operations. Our analysis below, in summary form, focuses on the net position (Table 1) and change in net position (Table 2) of the District's governmental and business-type activities.

Table 1

(Amounts in millions)	Governmental Activities		Business-Type Activities		School District Activities	
	2018	(As Restated) 2017	2018	(As Restated) 2017	2018	(As Restated) 2017
Assets						
Current and other assets	$ 90.2	$ 98.9	$ 12.8	$ 10.5	$ 103.0	$ 109.4
Capital assets	443.9	454.0	8.2	8.6	452.1	462.6
Total Assets	534.1	552.9	21.0	19.1	555.1	572.0
Deferred Outflows of Resources	97.5	77.7	9.5	5.1	107.0	82.8
Liabilities						
Current liabilities	14.6	14.8	0.9	0.5	15.5	15.3
Long-term obligations	263.6	266.7	6.5	5.3	270.1	272.0
Aggregate net pension liability	259.3	235.6	23.5	9.3	282.8	244.9
Total Liabilities	537.5	517.1	30.9	15.1	568.4	532.2
Deferred Inflows of Resources	11.9	6.1	0.3	0.3	12.2	6.4
Net Position						
Net investment in capital assets	223.8	218.4	4.2	4.5	228.0	222.9
Restricted	27.6	28.5	-	-	27.6	28.5
Unrestricted (Deficit)	(169.2)	(139.5)	(4.9)	4.3	(174.1)	(135.2)
Total Net Position	$ 82.2	$ 107.4	$ (0.7)	$ 8.8	$ 81.5	$ 116.2

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 for the year.

Table 2

(Amounts in millions)	Governmental Activities		Business-Type Activities		School District Activities	
	2018	2017	2018	2017	2018	2017
Revenues						
Program Revenues:						
Charges for services	$ 1.8	$ 1.8	$ 24.3	$ 32.0	$ 26.1	$ 33.8
Operating grants and contributions	63.1	56.2	0.5	0.7	63.6	56.9
Capital grants and contributions	0.1	6.0	-	-	0.1	6.0
General Revenues:						
Federal and State aid	179.7	179.7	-	-	179.7	179.7
Property taxes	47.4	47.4	-	-	47.4	47.4
Other general revenues	12.1	9.2	-	-	12.1	9.2
Total Revenues	304.2	300.3	24.8	32.7	329.0	333.0
Expenses						
Instruction-related	234.4	209.5	-	-	234.4	209.5
Pupil services	43.0	37.0	-	-	43.0	37.0
Administration	19.1	17.1	-	-	19.1	17.1
Plant services	26.7	22.9	-	-	26.7	22.9
Ancillary	2.3	2.1	-	-	2.3	2.1
Other	8.5	17.8	28.4	21.9	36.9	39.7
Total Expenses	334.0	306.4	28.4	21.9	362.4	328.3
Transfers	4.6	3.4	(4.6)	(3.4)	-	-
Change in Net Position	$ (25.2)	$ (2.7)	$ (8.2)	$ 7.4	$ (33.4)	$ 4.7

Governmental Activities

As reported in the *Statement of Activities* on page 16, the cost of all governmental activities in 2017-2018 was $334 million. The amount that our taxpayers ultimately financed for these activities through local taxes was $47.4 million. The remaining cost was paid by those who benefited from the programs $1.8 million or by other governments and organizations who subsidized certain programs with $63.1 million in grants and contributions. The remaining "public benefit" portion of our governmental activities were paid with $179.7 million in Federal and State aid and $12.1 million with other General Fund revenue sources such as interest and general entitlements.

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

Table 3

(Amounts in millions)	Total Cost of Services		Total Net Cost of Services	
	2018	2017	2018	2017
Instruction	$ 197.0	$ 177.5	$ 165.8	$ 141.7
Instruction-related activities	37.4	32.0	28.5	24.4
Pupil services	43.0	37.0	24.6	21.0
Administration	19.1	17.1	16.8	15.0
Plant services	26.7	22.9	24.8	22.0
Ancillary services	2.3	2.1	2.3	2.1
Other	8.5	17.8	6.2	16.3
Total	$ 334.0	$ 306.4	$ 269.0	$ 242.5

THE DISTRICT'S FUNDS

Upon completion of the 2017-2018 fiscal year, the District's governmental funds reported a combined fund balance of $67.2 million, a decrease of $10.0 million from 2016-2017 (Table 4).

Table 4

(Amounts in millions)	Balances and Activity			
	July 1, 2017	Revenues	Expenditures	June 30, 2018
General Fund	$ 39.4	$ 269.6	$ 277.9	$ 31.1
Bond Interest and Redemption Fund	14.5	12.3	12.1	14.7
Non-Major Governmental Funds	23.3	33.6	35.5	21.4
Total	$ 77.2	$ 315.5	$ 325.5	$ 67.2

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted on June 6, 2018. (A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in this annual financial report on page 82.)

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2018, the District had $452 million in a broad range of capital assets (net of depreciation), including land, construction, buildings, and furniture and equipment. This amount represents a net decrease (including additions, deductions, and depreciation) of $10.5 million, or 2.3 percent, over the prior year (Table 5).

Table 5

(Amounts in millions)	Governmental Activities		Business-Type Activities		School District Activities	
	2018	2017	2018	2017	2018	2017
Land	$ 24.7	$ 24.7	$ -	$ -	$ 24.7	$ 24.7
Construction in progress	1.5	35.3	-	-	1.5	35.3
Buildings and improvements	409.0	386.2	-	-	409.0	386.2
Equipment	8.6	7.8	8.2	8.5	16.8	16.3
Total	$ 443.8	$ 454.0	$ 8.2	$ 8.5	$ 452.0	$ 462.5

This year's additions totaled $6.8 million, with the majority of expenses related to capital assets for 2018-2019 include Hemet Elementary, Valle Vista Preschool facilities and bus purchases. The District's capital assets additions, deletions, and balances are presented in Note 5 in these financial statements.

Capital projects planned for the 2018-2019 year include completion of the Valle Vista Preschool facility and other miscellaneous projects.

Long-Term Obligations

At June 30, 2018, the District had $225.1 million in general obligation bonds and certificates of participation outstanding compared to $233.4 million in June 30, 2017, a decrease of $8.3 million, or 3.6 percent. Other obligations consisted of those items listed in Table 6 below.

Table 6

(Amounts in millions)	Governmental Activities		Business-Type Activities		School District Activities	
	2018	(As Restated) 2017	2018	(As Restated) 2017	2018	(As Restated) 2017
General obligation bonds	$ 172.3	$ 178.1	$ -	$ -	$ 172.3	$ 178.1
Certificates of participation	52.8	55.3	-	-	52.8	55.3
Capital leases	0.1	0.1	4.0	4.7	4.1	4.8
Compensated absences payable	0.9	0.9	0.2	0.2	1.1	1.1
Claims liability	8.1	5.3	-	-	8.1	5.3
Net OPEB obligation	29.4	26.9	2.3	2.1	31.7	29.0
Total	$ 263.6	$ 266.6	$ 6.5	$ 7.0	$ 270.1	$ 273.6

Other obligations include compensated absences payable, postemployment benefits (not including health benefits), capital leases, and other long-term obligations. We present more detailed information regarding our long-term obligations in Note 10 of the financial statements.

Net Pension Liability (NPL)

At year-end, the District had a net pension liability of $282.9 million, as a result of the adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The District therefore recorded its proportionate share of net pension liabilities for CalSTRS and CalPERS.

Table 7 lists the District's 2018-19 budget assumptions. These assumptions were based on the most current information available to the District at the time the budget was adopted in June 2018. Budgetary goals were developed and prioritized by the District's leadership team and governing board. Input provided by these two groups was used as the framework to develop the District's 2018-19 budget, which includes site and department allocations for both staffing and operating budgets.

Table 7

2018-2019 Budget Assumptions

Cost of Living Adjustment (COLA) (applied to LCFF targeted base)	3.00%
Enrollment (excluding charters)	21,443
Enrollment Growth (Decline)	274
ADA – Average Daily Attendance	20,281
ADA – Funded	20,281
ADA Percentage	94.6%
Salary Increase	3.0%
Step and Column Percent of Salaries	1.45%
Deferred/Routine Maintenance - Percent of Total Expenditures	3.00%
New Schools/(School Closures)	0
Reserve for Economic Uncertainties	5.00%

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, 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 information contact the Assistant Superintendent, Business Services, at Hemet Unified School District, 1791 West Acacia Avenue, Hemet, California, 92545-3797, or e-mail at: vchristakos@hemetusd.k12.ca.us.

HEMET UNIFIED SCHOOL DISTRICT

STATEMENT OF NET POSITION
JUNE 30, 2018

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Deposits and investments	$ 81,109,172	$ 5,213,180	$ 86,322,352
Receivables	8,503,123	7,562,738	16,065,861
Internal balances	9,817	(9,817)	-
Stores inventories	665,697	-	665,697
Capital assets			
Land and construction in process	26,235,739	-	26,235,739
Other capital assets	614,114,541	20,998,557	635,113,098
Less: Accumulated depreciation	(196,477,968)	(12,840,607)	(209,318,575)
Total Capital Assets	443,872,312	8,157,950	452,030,262
TOTAL ASSETS	534,160,121	20,924,051	555,084,172
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources related to pensions	97,538,383	9,462,147	107,000,530
LIABILITIES			
Accounts payable	10,209,285	865,339	11,074,624
Accrued interest payable	3,210,885	-	3,210,885
Unearned revenue	1,158,409	-	1,158,409
Long-term obligations			
Current portion of long-term obligations other than pensions	9,501,622	968,004	10,469,626
Noncurrent portion of long-term obligations other than pensions	254,132,098	5,519,513	259,651,611
Total Long-Term Obligations	263,633,720	6,487,517	270,121,237
Aggregate net pension liability	259,313,511	23,494,505	282,808,016
TOTAL LIABILITIES	537,525,810	30,847,361	568,373,171
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources related to pensions	11,925,095	282,003	12,207,098
NET POSITION			
Net investment in capital assets	223,806,075	4,171,470	227,977,545
Restricted for:			
Debt service	11,934,876	-	11,934,876
Capital projects	9,779,734	-	9,779,734
Educational programs	2,878,700	-	2,878,700
Other activities	3,074,566	-	3,074,566
Unrestricted (Deficit)	(169,226,352)	(4,914,636)	(174,140,988)
TOTAL NET POSITION	$ 82,247,599	$ (743,166)	$ 81,504,433

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

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HEMET UNIFIED SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

		Program Revenues		
Functions/Programs	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Instruction	$ 197,034,593	$ 9,496	$ 31,094,564	$ 73,808
Instruction-related activities:				
Supervision of instruction	14,165,595	121	7,386,725	-
Instructional library, media and technology	2,221,350	146	44,976	-
School site administration	20,979,018	3,816	1,421,968	-
Pupil services:				
Home-to-school transportation	7,005,879	-	248,392	-
Food services	15,137,369	864,859	12,336,062	-
All other pupil services	20,833,771	63	4,953,233	-
Administration:				
Data processing	5,314,414	710	1,171	-
All other administration	13,834,744	50,800	2,294,355	-
Plant services	26,691,213	18,328	1,917,528	-
Ancillary services	2,290,351	-	39,713	-
Community services	118,487	-	-	-
Enterprise services	631,354	-	-	-
Interest on long-term obligations	7,507,011	-	-	-
Other outgo	228,846	863,549	1,366,913	-
Total Governmental Activities	333,993,995	1,811,888	63,105,600	73,808
Business-Type Activities				
Transportation	28,381,599	24,264,685	467,889	-
Total School District	$ 362,375,594	$ 26,076,573	$ 63,573,489	$ 73,808

General Revenues and Subventions:

Property taxes, levied for general purposes

Property taxes, levied for debt service

Taxes levied for other specific purposes

Federal and State aid not restricted to specific purposes

Interest and investment earnings

Transfers between agencies

Miscellaneous

Subtotal, General Revenues

Excess of Revenues Over Expenses

Transfers between funds

Total General Revenues and Transfers

Change in Net Position

Net Position - Beginning

Restatement

Net Position - Beginning (as Restated)

Net Position - Ending

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

Net (Expenses) Revenues and Changes in Net Position		
Governmental Activities	**Business-Type Activities**	**Total**
$ (165,856,725)	$ -	$ (165,856,725)
(6,778,749)	-	(6,778,749)
(2,176,228)	-	(2,176,228)
(19,553,234)	-	(19,553,234)
(6,757,487)	-	(6,757,487)
(1,936,448)	-	(1,936,448)
(15,880,475)	-	(15,880,475)
(5,312,533)	-	(5,312,533)
(11,489,589)	-	(11,489,589)
(24,755,357)	-	(24,755,357)
(2,250,638)	-	(2,250,638)
(118,487)	-	(118,487)
(631,354)	-	(631,354)
(7,507,011)	-	(7,507,011)
2,001,616	-	2,001,616
(269,002,699)	-	(269,002,699)
-	(3,649,025)	(3,649,025)
(269,002,699)	(3,649,025)	(272,651,724)
30,726,159	-	30,726,159
13,141,771	-	13,141,771
3,545,683	-	3,545,683
179,722,129	-	179,722,129
293,498	-	293,498
369,364	-	369,364
11,404,859	-	11,404,859
239,203,463	-	239,203,463
(29,799,236)	(3,649,025)	(33,448,261)
4,646,695	(4,646,695)	-
(25,152,541)	(8,295,720)	(33,448,261)
112,926,339	8,807,250	121,733,589
(5,526,199)	(1,254,696)	(6,780,895)
107,400,140	7,552,554	114,952,694
$ 82,247,599	$ (743,166)	$ 81,504,433

HEMET UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2018

	General Fund	Bond Interest and Redemption Fund
ASSETS		
Deposits and investments	$ 34,208,702	$ 14,747,961
Receivables	6,263,060	-
Due from other funds	1,318,958	-
Stores inventories	167,825	-
Total Assets	$ 41,958,545	$ 14,747,961
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	$ 8,972,919	$ -
Due to other funds	795,791	-
Unearned revenue	1,107,028	-
Total Liabilities	10,875,738	-
Fund Balances:		
Nonspendable	192,825	-
Restricted	2,816,755	14,747,961
Committed	14,175,227	-
Assigned	-	-
Unassigned	13,898,000	-
Total Fund Balances	31,082,807	14,747,961
Total Liabilities and Fund Balances	$ 41,958,545	$ 14,747,961

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

Non-Major Governmental Funds	Total Governmental Funds
$ 20,648,811	$ 69,605,474
2,185,684	8,448,744
297,343	1,616,301
497,872	665,697
$ 23,629,710	$ 80,336,216
$ 1,088,500	$ 10,061,419
1,080,437	1,876,228
51,381	1,158,409
2,220,318	13,096,056
502,942	695,767
18,445,613	36,010,329
390,728	14,565,955
2,070,109	2,070,109
-	13,898,000
21,409,392	67,240,160
$ 23,629,710	$ 80,336,216

HEMET UNIFIED SCHOOL DISTRICT

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

Total Fund Balance - Governmental Funds		$ 67,240,160
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of capital assets is:	$ 640,350,280	
Accumulated depreciation is:	(196,477,968)	
Net Capital Assets		443,872,312
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.		(3,210,885)
An internal service fund is used by the District's management to charge the costs of the health and welfare benefits and workers' compensation program to the individual funds. The assets and liabilities of the Internal Service Fund are included with governmental activities. Internal Service Fund net assets are:		3,558,297
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	25,157,301	
Net change in proportionate share of net pension liability	21,429,471	
Differences between projected and actual earnings on pension plan investments	2,452,990	
Differences between expected and actual experience in the measurement of the total pension liability	3,237,137	
Changes of assumptions	45,261,484	
Total Deferred Outflows of Resources Related to Pensions		97,538,383

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

HEMET UNIFIED SCHOOL DISTRICT

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

Deferred inflows of resources related to pensions represent an acquisition of net position that applies to a future period and is not reported in the District's funds. Deferred inflows of resources related to pensions at year end consist of:		
Net change in proportionate share of net pension liability	(2,786,437)	
Difference between projected and actual earnings on pension plan investments	(5,017,718)	
Differences between expected and actual experience in the measurement of the total pension liability	(3,286,066)	
Changes of assumptions	(834,874)	
Total Deferred Inflows of Resources Related to Pensions		(11,925,095)
Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.		$ (259,313,511)
Long-term obligations, including general obligation bonds, are not due and payable in the current period and, therefore, are not reported as obligations in the funds.		
Long-term obligations at year-end consist of:		
General obligation bonds	$ (164,295,000)	
Premium on issuance, net of amortization	(8,044,996)	
Discount on issuance, net of amortization	76,098	
Certificates of participation	(48,619,342)	
Premium on issuance, net of amortization	(4,284,940)	
Discount on issuance, net of amortization	63,085	
Capital lease obligations	(92,710)	
Compensated absences payable	(902,647)	
Net OPEB liability	(29,411,610)	
Total Long-Term Obligations		(255,512,062)
Total Net Position - Governmental Activities		**$ 82,247,599**

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

HEMET UNIFIED SCHOOL DISTRICT

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

	General Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds
REVENUES			
Local Control Funding Formula	$ 203,876,640	$ -	$ 5,270,378
Federal sources	18,314,202	-	12,351,806
Other State sources	24,884,208	158,577	4,943,266
Other local sources	16,745,681	12,158,934	3,177,106
Total Revenues	263,820,731	12,317,511	25,742,556
EXPENDITURES			
Current			
Instruction	166,887,029	-	6,097,602
Instruction-related activities:			
Supervision of instruction	13,229,899	-	228,358
Instructional library, media, and technology	2,100,460	-	9,125
School site administration	18,141,551	-	1,172,844
Pupil services:			
Home-to-school transportation	7,005,879	-	-
Food services	28,824	-	13,271,624
All other pupil services	20,058,547	-	234,316
Administration:			
Data processing	4,579,163	-	128
All other administration	11,558,541	-	1,088,811
Plant services	23,146,832	-	3,223,226
Ancillary services	2,140,569	-	96,885
Community services	117,810	-	-
Other outgo	228,846	-	-
Enterprise services	1,049	-	-
Facility acquisition and construction	1,762,514	-	4,081,071
Debt service			
Principal	104,108	5,425,000	1,840,000
Interest and other	63,002	6,712,104	1,878,430
Total Expenditures	271,154,623	12,137,104	33,222,420
Excess (Deficiency) of Revenues Over Expenditures	(7,333,892)	180,407	(7,479,864)
OTHER FINANCING SOURCES (USES)			
Transfers in	5,860,848	-	7,826,637
Transfers out	(6,797,408)	-	(2,243,382)
Net Financing Sources (Uses)	(936,560)	-	5,583,255
NET CHANGE IN FUND BALANCES	(8,270,452)	180,407	(1,896,609)
Fund Balance - Beginning	39,353,259	14,567,554	23,306,001
Fund Balances - Ending	$ 31,082,807	$ 14,747,961	$ 21,409,392

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

Total Governmental Funds
$ 209,147,018
30,666,008
29,986,051
32,081,721
301,880,798
172,984,631
13,458,257
2,109,585
19,314,395
7,005,879
13,300,448
20,292,863
4,579,291
12,647,352
26,370,058
2,237,454
117,810
228,846
1,049
5,843,585
7,369,108
8,653,536
316,514,147
(14,633,349)
13,687,485
(9,040,790)
4,646,695
(9,986,654)
77,226,814
$ 67,240,160

HEMET UNIFIED SCHOOL DISTRICT

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

Total Net Change in Fund Balances - Governmental Funds		$ (9,986,654)
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures, however, for governmental activities, those costs are shown in the Statement of Net Position and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities.		
This is the amount by which depreciation exceeded capital outlay in the period.		
Capital outlays	$ 6,790,709	
Depreciation expense	(16,879,875)	
Net Expense Adjustment		(10,089,166)
In the Statement of Activities, certain operating expenses - compensated absences(vacations) is 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 amounts earned by $45,784.		(45,784)
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.		(9,672,648)
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.		(2,526,346)

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

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

Repayment of 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 and bond anticipation notes		5,425,000
Certificates of participation		2,212,955
Capital lease obligations		88,859
Governmental funds report the effect of premiums and discounts when the debt is first issued, whereas the amounts are deferred and amortized over the life of the debt in the Statement of Activities. This amount is the net effect of the amortization of the related items:		
Premium on issuance for general obligation bonds	$ 396,030	
Discount on issuance for general obligation bonds	(6,918)	
Premium on issuance for certificates of participation	297,811	
Discount on issuance for certificates of participation	(3,410)	
Combined Adjustment		683,513
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.		105,306
An internal service fund is used by the District's management to charge the costs of the health and welfare benefits and workers' compensation insurance program to the individual funds. The net revenue of the Internal Service Fund is reported with governmental activities.		(1,347,576)
Change in Net Position of Governmental Activities		**$ (25,152,541)**

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

HEMET UNIFIED SCHOOL DISTRICT

PROPRIETARY FUND
STATEMENT OF NET POSITION
JUNE 30, 2018

	Business-Type Activities Enterprise Fund Transportation	Governmental Activities Internal Service Fund
ASSETS		
Current Assets		
Deposits and investments	$ 5,213,180	$ 11,503,698
Receivables	7,562,738	54,379
Due from other funds	482,222	269,744
Total Current Assets	13,258,140	11,827,821
Noncurrent Assets		
Capital assets	20,998,557	-
Less: accumulated depreciation	(12,840,607)	-
Total Noncurrent Assets	8,157,950	-
Total Assets	21,416,090	11,827,821
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources related to pensions	9,462,147	-
LIABILITIES		
Current Liabilities		
Accounts payable	865,339	147,866
Due to other funds	492,039	-
Claims liabilities	-	1,348,000
Total Current Liabilities	1,357,378	1,495,866
Noncurrent Liabilities		
Noncurrent portion of claims liabilities	-	6,773,658
Capital lease	3,986,480	-
Net OPEB liability	2,286,155	-
Compensated absences payable	214,882	-
Aggregate net pension liability	23,494,505	-
Total Liabilities	31,339,400	8,269,524
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related to pensions	282,003	-
NET POSITION		
Net investment in capital assets	4,171,470	-
Unrestricted	(4,914,636)	3,558,297
Total Net Position	$ (743,166)	$ 3,558,297

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

HEMET UNIFIED SCHOOL DISTRICT

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

	Business-Type Activities Enterprise Fund Transportation	Governmental Activities Internal Service Fund
OPERATING REVENUES		
Charges for services	$ 24,644,304	$ -
Charges to other funds and miscellaneous revenues	-	1,688,437
Total Operating Revenues	24,644,304	1,688,437
OPERATING EXPENSES		
Payroll costs	26,222,567	306
Professional and contract services	(2,958,616)	3,198,256
Supplies and materials	2,933,168	1,515
Facility rental	902,185	-
Depreciation	1,282,295	-
Total Operating Expenses	28,381,599	3,200,077
Operating (Loss)	(3,737,295)	(1,511,640)
NONOPERATING REVENUES		
Interest income	82,238	164,064
Grants	6,032	-
Total Nonoperating Revenues	88,270	164,064
Income Before Transfers	(3,649,025)	(1,347,576)
Transfers out	(4,646,695)	-
Change in Net Position	(8,295,720)	(1,347,576)
Net Position - Beginning	8,807,250	4,905,873
Restatement	(1,254,696)	-
Net Position - Beginning (as Restated)	7,552,554	4,905,873
Total Net Position - Ending	$ (743,166)	$ 3,558,297

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

HEMET UNIFIED SCHOOL DISTRICT

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

	Business-Type Activities Enterprise Fund	Governmental Activities
	Transportation	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	$ 24,726,542	$ -
Cash received from assessments made to other funds	(482,222)	1,501,308
Cash payments to employees for services	(26,222,567)	(306)
Cash payments to suppliers for goods and services	(876,737)	-
Cash payments for administrative expense	(1,298,088)	(1,515)
Other operating cash payments	(1,027,952)	(2,435,684)
Net Cash Used For Operating Activities	(5,181,024)	(936,197)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Nonoperating grants received	6,032	-
Transfers to other funds	4,646,693	-
Net Cash Provided by Noncapital Financing Activities	4,652,725	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	916,275	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	82,238	141,934
Net Increase (Decrease) in Cash and Cash Equivalents	470,214	(794,263)
Cash and Cash Equivalents - Beginning	4,742,966	12,297,961
Cash and Cash Equivalents - Ending	$ 5,213,180	$ 11,503,698

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

HEMET UNIFIED SCHOOL DISTRICT

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS (Continued)
FOR THE YEAR ENDED JUNE 30, 2018

RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES:		
Operating loss	$ (3,737,295)	$ (1,511,640)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	1,282,295	-
Changes in assets and liabilities:		
Receivables	1,201,173	-
Due from other funds	(40,755)	(187,129)
Capital assets	916,275	-
Deferred outflows	4,313,965	-
Accounts payable	388,058	60,416
Due to other funds	(684,216)	16,676
Capital leases	(732,319)	-
Net OPEB liability	1,001,074	-
Compensated absences payable	17,189	-
Aggregate net pension liability	(14,242,162)	-
Claims liabilities	5,131,669	685,480
Deferred inflows	4,025	-
NET CASH USED FOR OPERATING ACTIVITIES	$ (5,181,024)	$ (936,197)

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

HEMET UNIFIED SCHOOL DISTRICT

FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2018

	Agency Funds		
	Associated Student Body	**Debt Service Fund for Special Tax Bonds**	**Total Agency Funds**
ASSETS			
Deposits and investments	$ 1,438,495	$ 4,725,055	$ 6,163,550
Stores inventories	23,446	-	23,446
Total Assets	$ 1,461,941	$ 4,725,055	$ 6,186,996
LIABILITIES			
Accounts payable	$ 852	$ -	$ 852
Due to bond holders	-	4,725,055	4,725,055
Due to student groups	1,461,089	-	1,461,089
Total Liabilities	$ 1,461,941	$ 4,725,055	$ 6,186,996

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Hemet Unified School District (the District) was established on July 1, 1966, under the laws of the State of California. The District operates under a locally elected seven-member Board form of government and provides educational services to grades K-12 as mandated by the State and/or Federal agencies. The District operates fourteen elementary schools, four middle schools, three high schools, one continuation school, two alternative independent study schools, an adult school, and two charter schools.

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

Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District, in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. For financial reporting purposes, the component units have a financial and operational relationship which meets the reporting entity definition criteria of the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and thus are included in the financial statements of the District. The component units, although legally separate entities, are reported in the financial statements using the blended presentation method as if they were part of the District's operations because the governing board of the component units is essentially the same as the governing board of the District and because their purpose is to finance the construction of facilities to be used for the direct benefit of the District.

The Golden West Schools Financing Authority (the Authority) and the Hemet Unified School District School Facilities Corporation (the Corporation) financial activity are presented in the financial statements as the Capital Projects Fund for Blended Component Units and the Debt Service Fund for Blended Component Units. Certificates of participation and other debt issued by the Authority and the Corporation are included as long-term liabilities in the government-wide financial statements. Individually prepared financial statements are not prepared for the Authority or the Corporation.

The Hemet Unified School District Community Facilities Districts (CFDs) financial activity is presented in the financial statements as the Capital Projects Fund for Blended Component Units and in the Fiduciary Funds Statement as the Debt Service Fund for Special Tax Bonds. Special Tax Bonds issued by the CFDs are not included in the long-term obligations of the *Statement of Net Position* as they are not obligations of the District. Individually prepared financial statements are not prepared for each of the CFDs.

Charter School The District has approved a Charter for the Western Center Academy Charter School pursuant to *Education Code* Section 47605. The Charter School is operated by the District, and its financial activities are presented in the Charter School Special Revenue Fund.

Other Related Entity

Joint Powers Authority The District is associated with one joint powers authority. This organization does not meet the criteria for inclusion as a component unit of the District. Additional information is presented in Note 16 to the financial statements. This organization is:

Southern California Regional Liability Excess Fund (So Cal ReLiEF)

Basis of Presentation - Fund Accounting

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

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

Major Governmental Funds

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

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 20, Special Reserve Fund for Postemployment Benefits, 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 a decrease in the fund balance of $4,848,373.

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

Non-Major Governmental Funds

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

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

Adult Education Fund The Adult Education Fund is used to account separately for Federal, State, and local revenues for restricted or committed adult education programs and is to be expended for adult education purposes only.

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* Sections 17582

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

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

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

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

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

Capital Projects for Blended Component Units Fund The Capital Projects for Blended Component Units Fund is used to account for capital projects financed by the 2004 COP, 2006 COP, 2007 COP, 2005-3 CFD, and 2005-4 CFD issuances that are considered blended component units of the District under generally accepted accounting principles (GAAP).

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.

Debt Service Fund for Blended Component Units The Debt Service Fund for Blended Component Units is used to account for the accumulation of resources for the payment of the principal and interest on bonds issued by Financing Authorities and similar entities that are considered blended component units of the District under generally accepted accounting principles (GAAP).

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

Enterprise Funds Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. These funds of the District account for the financial transactions related to the Transportation activities of the District.

Internal Service Fund Internal service funds may be used to account for goods or services provided to other funds of the District in return for a fee to cover the cost of operations. The District operates a Self-Insurance program for health and welfare and workers' compensation services that is accounted for in an internal service fund.

Fiduciary Funds Fiduciary funds are used to account for assets held in trustee or agent capacity for others that cannot be used to support the District's own programs. The fiduciary fund category is 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.

Trust funds are used to account for the assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore, not available to support the District's own programs. The District does not have any trust funds.

The Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The District's agency fund accounts for student body activities (ASB), debt service fund for special tax bonds, and funds held on behalf of other agencies.

Basis of Accounting - Measurement Focus

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

The government-wide financial *Statement of Activities* presents a comparison between direct expenses and program revenues for each segment of the District and for each governmental program, 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*. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws from the general revenues of the District. 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 net asset use.

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. The internal service fund is presented in a single column on the face of the proprietary fund statements.

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

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

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

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

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

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

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

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. Principal and interest on long-term obligations, which has not matured, are recognized when paid in the governmental funds. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

Cash and Cash Equivalents

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

Investments

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

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.

Capital assets in the proprietary funds are capitalized in the fund in which they are utilized. The valuation basis for proprietary fund capital assets is the same as those used for the capital assets of governmental funds.

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, 5 to 50 years; equipment, 2 to 15 years.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables".

Compensated Absences

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

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

Accrued Liabilities and Long-Term Obligations

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

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 pension related items.

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

Pensions

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

Postemployment Benefits Other Than Pensions (OPEB)

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

Fund Balances - Governmental Funds

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

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

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

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

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

Unassigned - all other spendable amounts.

Spending Order Policy

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

Minimum Fund Balance Policy

The governing board adopted a minimum fund balance policy for the General Fund in order to protect the District against revenue shortfalls or unpredicted on-time expenditures. The policy requires a Reserve for Economic Uncertainties consisting of unassigned amounts equal to no less than five 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. The District has related debt outstanding as of June 30, 2018. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The government-wide financial statements report $27,667,876 of restricted net position.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are charges to other funds for self-insurance. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Interfund Activity

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

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 Riverside bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

Change in Accounting Principles

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

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

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

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

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation;
- Reporting amounts previously reported as goodwill and "negative" goodwill;
- Classifying real estate held by insurance entities;
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost;

- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus;
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements;
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB;
- Classifying employer-paid member contributions for OPEB;
- Simplifying certain aspects of the alternative measurement method for OPEB;
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

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

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

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

New Accounting Pronouncements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

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

Governmental activities	$ 81,109,172
Business-type activities	5,213,180
Fiduciary funds	6,163,550
Total Deposits and Investments	$ 92,485,902

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

Cash on hand and in banks	$ 7,274,582
Cash in revolving	30,070
Investments	85,181,250
Total Deposits and Investments	$ 92,485,902

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; the Riverside County Investment Pool.

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.

General Authorizations

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

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

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.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District manages its exposure to interest rate risk by investing in the County Pool and 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.

Specific Identification

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 investments by maturity:

Investment Type	Reported Amount	Maturity Date/ Weighted Average Maturity in Days
Federal Farm Credit Banks	$ 1,292,935	3/12/2019
Certificates of Deposit	980,337	86
Federal Home Loan Mortgage Corp. - MTN	1,163,558	1007
Federal National Mortgate Association	365,930	578
Commercial Paper	800,040	9/19/2018
Riverside County Investment Pool	80,578,450	427
Total	$ 85,181,250	

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 investments in the County Pool are not required to be rated.

Investment Type	Minimum Legal Rating	Rating as of June 30, 2018	Reported Amount
Federal Farm Credit Banks	Not Required	Aaa	$ 1,292,935
Certificates of Deposit	Not Required	Not Rated	980,337
Federal Home Loan Mortgage Corp. - MTN	Not Required	Aaa	1,163,558
Federal National Mortgate Association	Not Required	Aaa	365,930
Commercial Paper	P-1	Aaa	800,040
Riverside County Investment Pool	Not Required	Aaa-bf	80,578,450
Total			$ 85,181,250

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 agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2018, the District's bank balance $6,686,208 was exposed to custodial credit risk because it was uninsured..

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

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

		Fair Value Measurements Using	
Investment Type	Reported Amount	Level 2 Inputs	Uncategorized
Federal Farm Credit Banks	$ 1,292,935	$ 1,292,935	$ -
Certificates of Deposit	980,337	980,337	-
Federal Home Loan Mortgage Corp. - MTN	1,163,558	1,163,558	-
Federal National Mortgate Association	365,930	365,930	-
Commercial Paper	800,040	800,040	-
Riverside County Investment Pool	80,578,450	-	80,578,450
Total	$ 85,181,250	$ 4,602,800	$ 80,578,450

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

NOTE 4 - RECEIVABLES

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

	General Fund	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities	Transportation Enterprise Fund
Federal Government					
Categorical aid	$ 2,764,416	$ 1,411,848	$ -	$ 4,176,264	$ -
State Government					
LCFF apportionment	2,558	-	-	2,558	-
Categorical aid	784,042	563,151	-	1,347,193	-
Lottery	886,708	27,406	-	914,114	-
Other State	1,477,487	29,456	-	1,506,943	
Local Government					
Interest	124,430	59,225	51,983	235,638	24,761
Other local sources	223,419	94,598	2,396	320,413	7,537,977
Total	$ 6,263,060	$ 2,185,684	$ 54,379	$ 8,503,123	$ 7,562,738

NOTE 5 - CAPITAL ASSETS

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

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	$ 24,701,180	$ -	$ -	$ 24,701,180
Construction in progress	35,298,947	850,292	34,614,680	1,534,559
Total Capital Assets Not Being Depreciated	60,000,127	850,292	34,614,680	26,235,739
Capital Assets Being Depreciated				
Buildings and improvements	551,126,794	38,416,355	70,000	589,473,149
Furniture and equipment	22,502,650	2,138,742	-	24,641,392
Total Capital Assets Being Depreciated	573,629,444	40,555,097	70,000	614,114,541
Total Capital Assets	633,629,571	41,405,389	34,684,680	640,350,280
Less Accumulated Depreciation				
Buildings and improvements	164,944,225	15,594,304	70,000	180,468,529
Furniture and equipment	14,723,868	1,285,571	-	16,009,439
Total Accumulated Depreciation	179,668,093	16,879,875	70,000	196,477,968
Governmental Activities Capital Assets, Net	453,961,478	24,525,514	34,614,680	443,872,312
Business-Type Activities				
Capital Assets Being Depreciated				
Furniture and equipment	20,082,282	916,275	-	20,998,557
Less Accumulated Depreciation				
Furniture and equipment	11,558,312	1,282,295	-	12,840,607
Business-Type Activities Capital Assets, Net	8,523,970	(366,020)	-	8,157,950
School District Totals	$ 462,485,448	$ 24,159,494	$ 34,614,680	$ 452,030,262

Depreciation expense was charged as a direct expense to governmental functions as follows:

Governmental Activities	
Instruction	$ 13,942,753
School site administration	455,758
Food services	793,354
All other administration	995,912
Plant services	692,098
Total Depreciation Expenses Governmental Activities	16,879,875
Business-Type Activities	
Home-to-school transportation	1,282,295
School District Totals	$ 18,162,170

NOTE 6 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances at June 30, 2018, between major and non-major governmental funds, and internal service funds are as follows:

	Due From			
Due To	General Fund	Non-Major Governmental Funds	Transportation Enterprise Fund	Total
General Fund	$ -	$ 828,864	$ 490,094	$ 1,318,958
Non-Major Governmental Funds	297,343	-	-	297,343
Transportation Enterprise Fund	482,222	-	-	482,222
Internal Service Fund	16,226	251,573	1,945	269,744
Total	$ 795,791	$ 1,080,437	$ 492,039	$ 2,368,267

A balance of $123,474 is due to the Charter Schools Non-Major Governmental Fund from the General fund for In-Lieu final calculation.

A balance of $91,140 is due to the Cafeteria Non-Major Governmental Fund from the General Fund for unpaid meals.

A balance of $422,805 is due to the Transportation Enterprise Fund from the General Fund to cover costs.

A balance of $319,363 is due to the to the General Fund from the Charter Schools Non-Major Governmental Fund for Special Education Master Plan.

A balance of $127,457 is due to the General Fund from the Charter Non-Major Governmental Fund to cover costs.

A balance of $250,000 is due to Internal Service Fund from the Child Development Non-Major Governmental Fund for temporary loan.

A balance of $261,146 is due to the General Fund from the Cafeteria Non-Major Governmental Fund for indirect cost.

A balance of $486,920 is due to the General Fund from the Transportation Enterprise Fund for charge backs.

Remaining balances resulted from the time lag between the date that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Operating Transfers

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

	Transfer From			
Transfer To	General Fund	Non-Major Governmental Funds	Transportation Enterprise Fund	Total
General Fund	$ -	$ 1,214,153	$ 4,646,695	$ 5,860,848
Non-Major Governmental Funds	6,797,408	1,029,229	-	7,826,637
Total	$ 6,797,408	$ 2,243,382	$ 4,646,695	$ 13,687,485

The General Fund transferred to the Debt Service for Blended Component Units Non-Major Governmental Fund for debt service payments.	$ 3,711,268
The General Fund transferred to the Cafeteria Non-Major Governmental Fund to support excess costs.	91,140
The General Fund transferred to the Deferred Maintenance Non-Major Governmental Fund to cover costs.	2,500,000
The General Fund transferred to the Special Reserve Non-Major Governmental Fund for Capital Outlay Projects for debt service payments.	495,000
The Charter Schools Non-Major Governmental Fund transferred to the General Fund for transportation and special education encroachment.	379,416
The Capital Projects Non-Major Governmental Fund for Blended Component Units transferred to the Capital Facilities Non-Major Governmental Fund for the reimbursement of costs.	1,029,229
The Special Reserve Non-Major Governmental Fund for Capital Outlay Projects transferred to the General Fund for Prop 39 expenses.	834,737
The Transportation Enterprise Fund transferred to the General Fund for admin fees and to cover District transportation costs.	4,646,695
Total	$ 13,687,485

NOTE 7 - ACCOUNTS PAYABLE

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

	General Fund	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities
Vendor payables	$ 4,441,014	$ 583,149	$ 147,866	$ 5,172,029
LCFF apportionment	2,674,661	73,727	-	2,748,388
Salaries and benefits	1,857,244	225,443	-	2,082,687
Construction	-	206,181	-	206,181
Total	$ 8,972,919	$ 1,088,500	$ 147,866	$ 10,209,285

	Transportation Enterprise Fund	Fiduciary Funds
Vendor payables	$ 582,346	$ 852
LCFF apportionment	-	-
Salaries and benefits	282,993	-
Construction	-	-
Total	$ 865,339	$ 852

NOTE 8 - UNEARNED REVENUE

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

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal financial assistance	$ 21,837	$ -	$ 21,837
State categorical aid	1,085,191	51,381	1,136,572
Total	$ 1,107,028	$ 51,381	$ 1,158,409

NOTE 9 - TAX AND REVENUE ANTICIPATION NOTES (TRANS)

On July 6, 2017, the District issued $7,900,000 of Tax and Revenue Anticipation Notes bearing interest at 3 percent. The notes were issued to supplement cash flows. Interest and principal were due and payable on June 29, 2018. By April, 2018, the District had placed 100 percent of principal and interest in an irrevocable trust for the sole purpose of satisfying the notes. The District was not required to make any additional payments on the notes.

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

Issue Date	Rate	Maturity Date	Outstanding July 1, 2017	Additions	Payments	Outstanding June 30, 2018
7/6/2017	3.00%	6/29/2018	$ -	$ 7,900,000	$ 7,900,000	$ -

NOTE 10 - LONG-TERM OBLIGATIONS

Summary

A schedule of changes in long-term obligations for the year ended June 30, 2018, is shown below:

	(as Restated) Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018	Due in One Year
Governmental Activities					
General Obligation Bonds	$ 169,720,000	$ -	$ 5,425,000	$ 164,295,000	$ 5,745,000
Premium on issuance	8,441,026	-	396,030	8,044,996	-
Discount on issuance	(83,016)	-	(6,918)	(76,098)	-
Certificates of Participation	50,832,297	-	2,212,955	48,619,342	2,315,912
Premium on issuance	4,582,751	-	297,811	4,284,940	-
Discount on issuance	(66,495)	-	(3,410)	(63,085)	-
Capital Leases	181,569	-	88,859	92,710	92,710
Compensated Absences Payable	856,863	45,784	-	902,647	-
Claims Liability	5,273,552	4,506,442	1,658,336	8,121,658	1,348,000
Net Other Postemployement (OPEB) Liability	26,885,264	3,648,004	1,121,658	29,411,610	-
Total Governmental Activities	$ 261,097,612	$ 8,200,230	$ 11,190,321	$ 263,633,720	$ 9,501,622
Business-Type Activities					
Capital Leases	$ 4,718,799	$ -	$ 732,319	$ 3,986,480	$ 968,004
Compensated Absences Payable	197,693	17,189	-	214,882	-
Net Other Postemployement (OPEB) Liability	2,064,106	299,361	77,312	2,286,155	-
Total Business-Type Activities	$ 5,308,555	$ 316,550	$ 809,631	$ 6,487,517	$ 968,004

- Payments on General Obligation Bonds are made by the Bond Interest and Redemption Fund with local revenues.
- Payments on the Certificates of Participation and Lease Revenue Bonds are made by the Debt Service for Blended Component Units Fund.
- Payments for Capital Leases are made by the General Fund, Capital Facilities Fund, and the Transportation Enterprise Fund.
- The Accumulated Vacation will be paid by the fund for which the employee worked.
- Payments for Supplemental Early Retirement obligations are made by the General Fund.
- Payments for the OPEB obligation will be paid by the fund for which the employee worked.

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2017	Issued	Redeemed	Bonds Outstanding June 30, 2018
7/28/10	8/1/26	4.00% - 4.50%	$ 18,740,000	$ 13,555,000	$ -	$ 1,135,000	$ 12,420,000
7/18/12	8/1/28	2.00% - 4.00%	21,260,000	17,525,000	-	1,395,000	16,130,000
12/16/14	8/1/38	3.00% - 5.00%	93,170,000	89,640,000	-	2,630,000	87,010,000
5/19/15	8/1/40	3.00% - 5.00%	49,000,000	49,000,000	-	265,000	48,735,000
			$ 182,170,000	$ 169,720,000	$ -	$ 5,425,000	$ 164,295,000

Debt Service Requirements to Maturity

The bonds mature through 2041 as follows:

Fiscal Year	Principal	Current Interest to Maturity	Total
2019	$ 5,745,000	$ 6,465,913	$ 12,210,913
2020	6,105,000	6,202,642	12,307,642
2021	6,450,000	5,941,448	12,391,448
2022	6,790,000	5,671,788	12,461,788
2023	7,155,000	5,379,043	12,534,043
2024-2028	40,500,000	22,381,039	62,881,039
2029-2033	34,245,000	15,166,425	49,411,425
2034-2038	42,050,000	7,526,775	49,576,775
2039-2041	15,255,000	852,900	16,107,900
Total	$ 164,295,000	$ 75,587,973	$ 239,882,973

2010 General Obligation Refunding Bonds

In July 2010, the District issued $18,740,000 of the 2010 General Obligation Refunding Bonds. The bonds mature on August 1, 2026, with interest yields ranging from 4.00 to 4.50 percent. The proceeds from the sale of the bonds were used to refund the outstanding 2002 General Obligation Bonds, Series A. At June 30, 2018, the principal balance outstanding was $12,420,000 and unamortized premium was $153,972.

2012 General Obligation Refunding Bonds

In July 2012, the District issued $21,260,000 of the 2012 General Obligation Refunding Bonds. The bonds mature on August 1, 2028, with interest yields ranging from 2.00 to 4.00 percent. The proceeds from the sale of the bonds were used to refund the outstanding 2002 General Obligation Bonds, Series B, and C. At June 30, 2018, the principal balance outstanding was $16,130,000 and unamortized discount was $76,098.

2014 General Obligation Refunding Bonds

In December 2014, the District issued $93,170,000 of the 2014 General Obligation Refunding Bonds. The bonds mature on August 1, 2038, with interest yields ranging from 3.00 to 5.00 percent. The proceeds from the sale of the bonds were used to refund a portion of the outstanding 2002 General Obligation Bonds, Series D and E and the 2006 General Obligation Bonds, Series A and B. The additional proceeds from the sale of the bonds will be used to finance the acquisition and construction of new schools, classrooms, and facilities, and to repair existing schools. At June 30, 2018, the principal balance outstanding was $87,010,000 and unamortized premium was $6,505,901.

2012 General Obligation Bonds, Series A

In May 2015, the District issued $49,000,000 of the 2012 General Obligation Bonds, Series A. The bonds mature on August 1, 2040, with interest yields ranging from 3.00 to 5.00 percent. The proceeds from the sale of the bonds will be used to finance the acquisition and construction of new schools, classrooms, and facilities, and to repair existing schools. At June 30, 2018, the principal balance outstanding was $48,735,000 and unamortized premium was $1,385,123.

Certificates of Participation Summary

The outstanding certificates of participation are as follows:

Issue Date	Maturity Date	Original Issue	COP Outstanding July 1, 2017	Issued	Redeemed	COP Outstanding June 30, 2018
12/13/05	12/27/20	$ 5,000,000	$ 1,477,297	$ -	$ 372,955	$ 1,104,342
11/21/07	10/01/36	4,610,000	3,535,000	-	-	3,535,000
09/30/15	10/01/28	16,690,000	15,630,000	-	1,085,000	14,545,000
09/27/16	10/01/34	23,965,000	23,965,000	-	-	23,965,000
09/27/16	10/01/23	6,225,000	6,225,000	-	755,000	5,470,000
		$ 56,490,000	$ 50,832,297	$ -	$ 2,212,955	$ 48,619,342

Debt Service Requirements to Maturity

The certificates mature through 2037 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2019	$ 2,315,912	$ 1,827,024	$ 4,142,936
2020	2,449,087	1,765,886	4,214,973
2021	2,524,343	1,711,166	4,235,509
2022	2,285,000	1,651,692	3,936,692
2023	2,980,000	1,582,556	4,562,556
2024-2028	14,300,000	6,146,988	20,446,988
2029-2033	13,740,000	2,925,019	16,665,019
2034-2037	8,025,000	435,663	8,460,663
Total	$ 48,619,342	$ 18,045,994	$ 66,665,336

2005 Qualified Zone Academy Bond Certificates of Participation

On December 13, 2005, the District issued $5,000,000 aggregate principal amount of Qualified Zone Academy Bond Program (QZAB) certificates of participation. The QZAB certificates represent interest free financing for the District. Owners of the QZAB certificates receive a Federal tax credit in lieu of charging the District interest on the certificates. The certificates mature on December 27, 2020. The District received net proceeds of $4,876,231 (after payment of $123,769 in underwriter fees, and issuance costs).

The District began making annual deposits of $275,665 on December 27, 2006, into an investment account with US Bank for payment of the QZAB at maturity. Fifteen payments will be made from December 27, 2006 to December 27, 2020, which will total $4,134,975.

The required payments through December 27, 2020, are as follows:

Fiscal Year	Required Payments
2019	$ 275,665
2020	275,665
2021	275,665
Total Remaining Payments	826,995
Cumulative payments made by County Office of Education	3,895,658
Projected cumulative interest earnings	277,347
Total obligation	$ 5,000,000
Remaining obligation to be funded with required payments and interest earnings	$ 1,104,342

2007 Certificates of Participation

On November 21, 2007, the District, pursuant to a lease agreement with the Hemet Unified School District Facilities Corporation, issued certificates of participation in the amount of $4,610,000. The certificates were issued to finance the acquisition and construction of school facilities, fund a reserve account, and pay issuance costs associated with the execution and delivery of the certificates. At June 30, 2018, the principal balance outstanding was $3,535,000 and unamortized discount was $63,085.

2015 Refunding Certificates of Participation

In September 2015, the District issued $16,690,000 of the 2015 Refunding Certificates of Participation. The certificates mature on October 1, 2028, with interest yields ranging from 2.00 to 5.00 percent. The certificates were issued to refund the remaining outstanding 2004 Certificates of Participation and the 2005 Lease Revenue Bonds. At June 30, 2018, the principal balance outstanding was $14,545,000 and unamortized premium was $1,100,652.

2016 Refunding Certificates of Participation, Series A

In September 2016, the District issued $23,965,000 of the 2016 Refunding Certificates of Participation, Series A. The certificates mature on October 1, 2034, with interest yields ranging from 3.00 to 5.00 percent. The certificates were issued to refund the remaining outstanding 2006 Certificates of Participation. At June 30, 2018, the principal balance outstanding was $23,965,000 and unamortized premium was $3,184,288.

2016 Refunding Certificates of Participation, Series B

In September 2016, the District issued $6,225,000 of the 2016 Refunding Certificates of Participation, Series B. The certificates mature on October 1, 2023, with interest yields ranging from 1.59 to 2.72 percent. The certificates were issued to refund the remaining outstanding 2006 Certificates of Participation. At June 30, 2018, the principal balance outstanding was $5,470,000.

Capital Leases - Governmental Activities

The District's liability on lease agreements with options to purchase is summarized below:

	Energy Management Equipment
Balance, July 1, 2017	$ 193,456
Payments	96,728
Balance, June 30, 2018	$ 96,728

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2019	$ 96,728
Less: Amount Representing Interest	4,018
Present Value of Minimum Lease Payments	$ 92,710

Capital Leases - Business-Type Activities

The District's liability on lease agreements with options to purchase is summarized below:

	Buses
Balance, July 1, 2017 (as Restated)	$ 5,131,826
Payments	863,304
Balance, June 30, 2018	$ 4,268,522

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2019	$ 1,065,843
2020	1,065,846
2021	1,065,847
2022	401,338
2023	267,859
2024-2025	401,789
Total	4,268,522
Less: Amount Representing Interest	282,042
Present Value of Minimum Lease Payments	$ 3,986,480

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District and the Business-Type Activities at June 30, 2018, amounted to $902,647 and 214,882, respectively.

Claims Liability

The District has an outstanding long-term liability for claims for the District's Workers' Compensation Insurance Program in the amount of $8,121,658.

Net Other Post Employment Benefits (OPEB) Liability

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

OPEB Plan	Net OPEB Liability	OPEB Expense
District Plan	$ 27,858,984	$ 3,648,004
Transportation Plan	2,286,155	299,361
Medicare Premium Payment (MPP) Program	1,552,626	179,536
Total	$ 31,697,765	$ 4,126,901

The details of each plan are as follows:

District and Transportation Plan

Plan administration

The District's Governing Board administers the Postemployment Benefits 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 GASSB Statement No. 75.

Plan membership

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

Inactive employees or beneficiaries currently receiving benefits payments	95
Active employees	2,521
	2,616

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 Hemet Unified School District's Governing Board (the Governing Board) has the authority to establish and amend the benefit terms as contained within the negotiated labor agreements.

Contributions

The contribution requirements of Plan members and the District are established and may be amended by the District and the Teacher Education Association (TEA), the local California Service Employees Association (CSEA), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually through the agreements with the District, TEA, CSEA, and the unrepresented groups. For fiscal year 2017-2018, the District contributed $1,019,434 to the Plan, of which $379,228 was used for current premiums

Net OPEB Liability of the District and Transportation

Actuarial assumptions

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

Inflation	2.75 percent
Salary increases	2.75 percent, average, including inflation
Discount rate	3.80 percent
Health care cost trend rates	4.00 percent for 2018

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

Mortality rates were based on the 2009 CalSTRS Mortality Table for certificated employees and the 2014 CalPERS Active Mortality for Miscellaneous Employees Table for classified employees. Mortality rates vary by age and sex. (Unisex mortality rates are not often used as individual OPEB benefits do not depend on the mortality table used.) If employees die prior to retirement, past contributions are available to fund benefits for employees who live to retirement. After retirement, death results in benefit termination or reeducation. Although higher mortality rates reduce service costs, the mortality assumption is not likely to vary from employer to employer.

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

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at June 30, 2017	$ 27,217,208
Service cost	2,879,278
Interest	1,068,087
Benefit payments	(1,019,434)
Net change in total OPEB liability	2,927,931
Balance at June 30, 2018	$ 30,145,139

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 1-percentage-point lower (2.8 percent) or 1-percentage-point higher (4.8 percent) than the current discount rate:

Discount Rate	Total OPEB Liability
1% decrease (2.8%)	$ 32,234,772
Current discount rate (3.8%)	30,145,139
1% increase (4.8%)	28,214,472

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 1-percentage-point lower (3 percent) or 1-percentage-point higher (5 percent) than the current healthcare costs trend rates:

Health Care Cost Trend Rates	Total OPEB Liability
1% decrease (3%)	$ 28,772,974
Current healthcare cost trend rate (4%)	30,145,139
1% increase (5%)	31,379,129

OPEB Expense related to OPEB

For the year ended June 30, 2018, the District and Transportation recognized OPEB expense of $3,648,004 and $299,361, respectively.

Medicare Premium Payment (MPP) Program

Plan Description

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

A full description of the MPP Program regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016, annual actuarial valuation report, Medicare Premium Payment Program Actuarial Valuation. This report and CalSTRS audited financial information are publically 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 STRP 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.

Contributions

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

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

At June 30, 2018, the District reported a liability of $1,552,626 for its proportionate share of the net OPEB liability for the MPP Program. The net OPEB liability was measured as of June 30, 2016, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 was 0.3691 percent.

For the year ended June 30, 2018, the District recognized OPEB expense of $179,536.

Actuarial Methods and Assumptions

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

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

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

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

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

Discount Rate

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

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

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

Discount Rate	Net OPEB Liability
1% decrease (2.58%)	$ 1,718,866
Current discount rate (3.58%)	1,552,626
1% increase (4.58%)	1,390,923

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

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

Medicare Costs Trend Rate	Net OPEB Liability
1% decrease (2.7% Part A and 3.1% Part B)	$ 1,403,035
Current medicare costs trend rate (3.7% Part A and 4.1% Part B)	1,552,626
1% increase (4.7% Part A and 5.1% Part B)	1,700,723

NOTE 11 - NON-OBLIGATORY DEBT

Non-obligatory debt relates to debt issuances by the Community Facility Districts, as authorized by the Mello-Roos Community Facilities Act of 1982 as amended, and the Mark-Roos Local Bond Pooling Act of 1985, and are payable from special taxes levied on property within the Community Facilities Districts according to a methodology approved by the voters within the District. Neither the faith and credit nor taxing power of the District is pledged to the payment of the bonds. Reserves have been established from the bond proceeds to meet delinquencies should they occur. If delinquencies occur beyond the amounts held in those reserves, the District has no duty to pay the delinquency out of any available funds of the District. The District acts solely as an agent for those paying taxes levied and the bondholders, and may initiate foreclosure proceedings. Special assessment debt of $29,505,000 as of June 30, 2018, does not represent debt of the District and, as such, does not appear in the accompanying basic financial statements.

NOTE 12 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
Nonspendable				
Revolving cash	$ 25,000	$ -	$ 5,070	$ 30,070
Stores inventories	167,825	-	497,872	665,697
Total Nonspendable	192,825	-	502,942	695,767
Restricted				
Legally restricted programs	2,816,755	-	3,136,511	5,953,266
Capital projects	-	-	14,911,302	14,911,302
Debt service	-	14,747,961	397,800	15,145,761
Total Restricted	2,816,755	14,747,961	18,445,613	36,010,329
Committed				
Deferred maintenance program	-	-	389,228	389,228
OPEB reserves	4,914,042	-	-	4,914,042
Capital equipment and improvements	-	-	1,500	1,500
LCAP initiatives	3,442,773	-	-	3,442,773
STRS and PERS rate increases	3,049,970	-	-	3,049,970
Instructional materials and services	1,323,809	-	-	1,323,809
Health and welfare premiums	830,170	-	-	830,170
Technology infrastructure	375,000	-	-	375,000
Instructional supplies and services	239,463	-	-	239,463
Total Committed	14,175,227	-	390,728	14,565,955
Assigned				
Capital equipment and improvements	-	-	458,744	458,744
Other assignments	-	-	1,611,365	1,611,365
Total Assigned	-	-	2,070,109	2,070,109
Unassigned				
Economic uncertainties	13,898,000	-	-	13,898,000
Total	$ 31,082,807	$ 14,747,961	$ 21,409,392	$ 67,240,160

NOTE 13 - RISK MANAGEMENT

Description

The District's risk management activities are recorded in the General and Self-Insurance Funds. Employee life, health, vision, dental, disability, and workers' compensation programs are administered by the District. The District is exposed to various risks of loss related to torts; theft, damage and destruction of assets; errors and omissions; injuries to employees; life and health of employees; and natural disasters. The District purchases commercial insurance through Southern California Regional Liability Excess Fund Joint Powers Authority for first party damage with coverage up to a maximum of $250 million, subject to Member Retained Limits ranging from $250 to $5,000 per occurrence. The District also purchases commercial insurance for general liability claims with coverage up to $1 million per occurrence with excess liability coverage up to $24 million per occurrence and $52 million aggregate, all subject to a $5,000 Member Retained Limit per occurrence. The District self-insures workers' compensation coverage up to $1,000,000 per occurrence with excess coverage up to $10,000,000.

Claims Liabilities

The District records an estimated liability for indemnity torts and other claims against the District. Claims liabilities are based on estimates of the ultimate cost of reported claims (including future claim adjustment expenses) and an estimate for claims incurred, but not reported based on historical experience.

Unpaid Claims Liabilities

The fund establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represent the changes in approximate aggregate liabilities for the District from July 1, 2016 to June 30, 2018:

	Workers' Compensation
Liability Balance, July 1, 2016	$ 6,824,989
Claims provision	2,562,483
Claims paid	(1,951,294)
Liability Balance, June 30, 2017	7,436,178
Claims provision	2,343,816
Claims paid	(1,658,336)
Liability Balance, June 30, 2018	$ 8,121,658
Amount available to pay claims	$ 11,827,821

NOTE 14 - EMPLOYEE RETIREMENT SYSTEMS

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

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

Pension Plan	Collective Net Pension Liability	Collective Deferred Outflows of Resources	Collective Deferred Inflows of Resources	Collective Pension Expense
CalSTRS	$ 188,518,139	$ 63,714,777	$ 11,096,951	$ 29,632,899
CalPERS	94,289,877	43,285,753	1,110,147	17,089,688
Total Governmental	$ 282,808,016	$ 107,000,530	$ 12,207,098	$ 46,722,587

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, 2016, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at: http://www.calstrs.com/member-publications.

Benefits Provided

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

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

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

The STRP provisions and benefits in effect at June 30, 2018, 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%	9.205%
Required employer contribution rate	14.43%	14.43%
Required state contribution rate	9.328%	9.328%

Contributions

Required member, District, and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven year period. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the District's total contributions were $17,016,552.

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

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

Total Net Pension Liability, Including State Share:

District's proportionate share of net pension liability	$ 188,518,139
State's proportionate share of the net pension liability associated with the District	111,525,738
Total	$ 300,043,877

The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively, was 0.2038 percent and 0.2081 percent, resulting in a net decrease in the proportionate share of 0.0043 percent.

For the year ended June 30, 2018, the District recognized pension expense of $29,632,899. In addition, the District recognized pension expense and revenue of $11,226,136 for support provided by the State. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 17,016,552	$ -
Net change in proportionate share of net pension liability	11,075,880	2,788,128
Differences between projected and actual earnings on pension plan investments	-	5,020,763
Differences between expected and actual experience in the measurement of the total pension liability	697,158	3,288,060
Changes of assumptions	34,925,187	-
Total	$ 63,714,777	$ 11,096,951

The deferred outflows/(inflows) of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	$ (4,173,946)
2020	3,158,446
2021	455,430
2022	(4,460,693)
Total	$ (5,020,763)

The deferred outflows 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 of Resources
2019	$ 7,400,061
2020	7,400,061
2021	7,400,061
2022	7,400,061
2023	5,549,426
Thereafter	5,472,367
Total	$ 40,622,037

Actuarial Methods and Assumptions

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

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

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

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

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

Discount Rate

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

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

Discount Rate	Net Pension Liability
1% decrease (6.10%)	$ 276,804,477
Current discount rate (7.10%)	188,518,139
1% increase (8.10%)	116,867,792

California Public Employees Retirement System (CalPERS)

Plan Description

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

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016, annual actuarial valuation reports, Schools Pool Actuarial Valuation, and the Risk Pool Actuarial Valuation Report, Safety. These reports and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at: http://www.calstrs.com/member-publications.

Benefits Provided

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

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

	School Employer Pool (CalPERS)	
	On or before	On or after
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 Years of Service	5 Years of Service
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.000%	6.50%
Required employer contribution rate	15.531%	15.531%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the total District contributions were $10,101,165.

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

As of June 30, 2018, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling $94,289,877. The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively, was 0.3950 percent and 0.3874 percent, resulting in a net increase in the proportionate share of 0.0076 percent.

For the year ended June 30, 2018, the District recognized pension expense of $17,089,688. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 10,101,165	
Net change in proportionate share of net pension liability	12,772,266	-
Difference between projected and actual earnings on pension plan investments	3,261,785	-
Differences between expected and actual experience in the measurement of the total pension liability	3,378,017	-
Changes of assumptions	13,772,520	1,110,147
Total	$ 43,285,753	$ 1,110,147

The deferred outflows/(inflows) of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	$ (88,383)
2020	3,763,392
2021	1,372,927
2022	(1,786,151)
Total	$ 3,261,785

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

Year Ended June 30,	Deferred Outflows of Resources
2019	$ 11,502,478
2020	10,483,157
2021	6,827,021
Total	$ 28,812,656

Actuarial Methods and Assumptions

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

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7. 15%
Investment rate of return	7. 15%
Consumer price inflation	2.75%
Wage growth	Varies by entry age and service

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

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

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	47%	5.38%
Global debt securities	19%	2.27%
Inflation assets	6%	1.39%
Private equity	12%	6.63%
Real estate	11%	5.21%
Infrastructure and Forestland	3%	5.36%
Liquidity	2%	-0.9%

Discount Rate

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

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

Discount rate	Net Pension Liability
1% decrease (6.15%)	$ 138,730,625
Current discount rate (7.15%)	94,289,877
1% increase (8.15%)	57,422,556

Social Security

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

On Behalf Payments

The State of California makes contributions to CalSTRS and CalPERS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of 9,069,430 (9.328 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS). No contributions were made to CalPERS for the year ended June 30, 2018. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

Grants

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

Litigation

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

Construction Commitments

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

Capital Projects	Remaining Construction Commitments	Expected Date of Completion
Site acquisition	$ 25,000	2019
DSA closeout projects	22,710	2020
Fire alarm replacement project	208,550	2019
Relo restroom replacement project	265,413	2019
Relo trailer move project	7,983	2019
Security modernization project	19,990	2019
Turf replacement project	464,445	2019
College & Career Center modernization multi sites project	63,255	2019
New school Gibbel ES project	1,106,074	2021
	$ 2,183,420	

NOTE 16 - PARTICIPATION JOINT POWERS AUTHORITY

The District is a member of the Southern California Regional Liability Excess Fund (SoCal ReLiEF) a joint powers authority (JPA). The District pays an annual premium for its property liability coverage. The relationship between the District and the JPA is such that it is not a component unit of the District for financial reporting purposes.

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

During the year ended June 30, 2018, the District made payments of $1,383,737 to SoCal ReLiEF, for services received.

NOTE 17 - RESTATEMENT OF PRIOR YEAR NET POSITION

Certain items that occurred in the prior year net position have been restated as of June 30, 2017, to more accurately reflect the substance of the underlying transactions. Additionally, the District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the current year. As a result, the effect on the current fiscal year is as follows:

Statement of Net Position - Governmental Activities

Net Position - Beginning	$ 112,926,339
Change in net OPEB liability from the adoption of GASB Statement No. 75	(6,106,707)
Overstatement of compensated absences payable	197,693
Overstatement of capital lease payable	382,815
Net Position - Beginning as Restated	$ 107,400,140

Statement of Net Position - Business-Type Activities

Net Position - Beginning	$ 8,807,250
Change in net OPEB liability from the adoption of GASB Statement No. 75	(779,025)
Understatement of deferred inflows of resources related to pensions	(277,978)
Understatement of compensated absences payable	(197,693)
Net Position - Beginning as Restated	$ 7,552,554

Government-Wide Financial Statements

Net Position - Beginning	$ 121,733,589
Change in net OPEB liability from the adoption of GASB Statement No. 75	(6,885,732)
Understatement of deferred inflows of resources related to pensions	(277,978)
Understatement of capital leases payable	382,815
Net Position - Beginning as Restated	$ 114,952,694

REQUIRED SUPPLEMENTARY INFORMATION

HEMET UNIFIED SCHOOL DISTRICT

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

	Budgeted Amounts		Actual	Variances - Positive (Negative) Final
	Original	Final	(GAAP Basis)	to Actual
REVENUES				
Local Control Funding Formula	$ 202,930,091	$ 204,178,597	$ 203,876,640	$ (301,957)
Federal sources	16,135,274	18,854,712	18,314,202	(540,510)
Other State sources	17,430,199	25,414,021	24,884,208	(529,813)
Other local sources	16,125,968	16,421,326	16,745,681	324,355
Total Revenues [1]	252,621,532	264,868,656	263,820,731	(1,047,925)
EXPENDITURES				
Current				
Certificated salaries	114,684,706	117,509,594	117,091,118	418,476
Classified salaries	39,539,803	39,066,043	40,085,014	(1,018,971)
Employee benefits	56,621,193	57,184,547	55,957,350	1,227,197
Books and supplies	18,045,606	21,129,857	20,481,840	648,017
Services and operating expenditures	30,113,398	36,929,035	35,653,490	1,275,545
Capital outlay	1,177,944	2,241,521	2,362,171	(120,650)
Other outgo	(768,119)	(494,975)	(643,470)	148,495
Debt service				
Principal	2,005,468	1,999,747	104,108	1,895,639
Interest	1,660,645	1,772,984	63,002	1,709,982
Total Expenditures [1]	263,080,644	277,338,353	271,154,623	6,183,730
Excess (Deficiency) of Revenues Over Expenditures	(10,459,112)	(12,469,697)	(7,333,892)	5,135,805
Other Financing Sources (Uses)				
Transfers in	4,298,285	5,365,736	5,860,848	495,112
Transfers out	(2,495,000)	(3,033,318)	(6,797,408)	(3,764,090)
Net Financing Sources (Uses)	1,803,285	2,332,418	(936,560)	(3,268,978)
NET CHANGE IN FUND BALANCES	(8,655,827)	(10,137,279)	(8,270,452)	1,866,827
Fund Balance - Beginning	39,353,259	39,353,259	39,353,259	-
Fund Balance - Ending	$ 30,697,432	$ 29,215,980	$ 31,082,807	$ 1,866,827

[1] Due to the consolidation of Fund 20, Special Reserve Fund for Postemployment Benefits for reporting purposes into the General Fund, additional revenues and expenditures pertaining to these other funds are included in the Actual (GAAP Basis) revenues and expenditures, however are not included in the original and final General Fund budgets.

See accompanying note to required supplementary information.

HEMET UNIFIED SCHOOL DISTRICT

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

	2018
Total OPEB Liability	
Service cost	$ 2,879,278
Interest	1,068,087
Benefit payments	(1,019,434)
Net change in total OPEB liability	2,927,931
Total OPEB liability - beginning	27,217,208
Total OPEB liability - ending (a)	$ 30,145,139
Covered-employee payroll	N/A[1]
District's net OPEB liability as a percentage of covered-employee payroll	N/A[1]

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

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

See accompanying note to required supplementary information.

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

Year ended June 30,	2018
District's proportion of the net OPEB liability	0.3691%
District's proportionate share of the net OPEB liability	$ 1,552,626
District's covered-employee payroll	N/A[1]
District's proportionate share of the net OPEB liability as a percentage of it's covered-employee payroll	N/A[1]
Plan fiduciary net position as a percentage of the total OPEB liability	0.01%

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

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

See accompanying note to required supplementary information.

HEMET UNIFIED SCHOOL DISTRICT

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

	2018	2017
CalSTRS		
District's proportion of the net pension liability	0.2038%	0.2081%
District's proportionate share of the net pension liability	$ 188,518,139	$ 168,316,604
State's proportionate share of the net pension liability associated with the District	111,525,738	95,819,640
Total	$ 300,043,877	$ 264,136,244
District's covered - employee payroll	$ 110,506,645	$ 104,777,884
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	170.59%	160.64%
Plan (CalSTRS) fiduciary net position as a percentage of the total pension liability	69%	70%
CalPERS		
District's proportion of the net pension liability	0.3950%	0.3874%
District's proportionate share of the net pension liability	$ 94,289,877	$ 76,508,391
District's covered - employee payroll	$ 54,065,452	$ 66,483,861
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	174.40%	115.08%
Plan (CalPERS) fiduciary net position as a percentage of the total pension liability	72%	74%

See accompanying note to required supplementary information.

2016	2015
0.2040%	0.1826%
$ 137,370,181	$ 106,695,256
72,653,682	64,427,202
$ 210,023,863	$ 171,122,458
$ 94,422,286	$ 101,632,715
145.48%	104.98%
74%	77%
0.3753%	0.3178%
$ 55,315,901	$ 40,039,851
$ 41,568,601	$ 42,763,852
133.07%	93.63%
79%	83%

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

See accompanying note to required supplementary information.

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

	2018	2017
CalSTRS		
Contractually required contribution	$ 17,016,552	$ 13,901,736
Contributions in relation to the contractually required contribution	17,016,552	13,901,736
Contribution deficiency (excess)	$ -	$ -
District's covered - employee payroll	$ 117,924,823	$ 110,506,645
Contributions as a percentage of covered - employee payroll	14.43%	12.58%
CalPERS		
Contractually required contribution	$ 10,101,165	$ 7,508,610
Contributions in relation to the contractually required contribution	10,101,165	7,508,610
Contribution deficiency (excess)	$ -	$ -
District's covered - employee payroll	$ 65,038,729	$ 54,065,452
Contributions as a percentage of covered - employee payroll	15.53%	13.89%

See accompanying note to required supplementary information.

2016	2015
$ 11,242,667	$ 8,384,699
11,242,667	8,384,699
$ -	$ -
$ 104,777,884	$ 94,422,286
10.73%	8.88%
$ 7,876,343	$ 4,893,040
7,876,343	4,893,040
$ -	$ -
$ 66,483,861	$ 41,568,601
11.85%	11.77%

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

See accompanying note to required supplementary information.

NOTE 1 - PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

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

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

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

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

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

Change in benefit terms – There were no changes in benefit terms since the previous valuation for other postemployment benefits.

Change of assumptions – Liability changes resulting from changes in economic and demographic assumptions are also deferred based on the average working life.

Schedule of the District's Proportionate Share of the Net Pension Liability – MPP Program

Change in benefit terms – There were no changes in benefits terms since the previous valuation.

Change of assumptions – The plan rate of investment return assumption was changed from 2.85 percent to 3.58 percent since the previous valuation.

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

This schedule presents information on the District's proportionate share of the net pension liability (NPL), the plans’ fiduciary net position and, when applicable, the States’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.

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

Schedule of District Contributions

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

SUPPLEMENTARY INFORMATION

HEMET UNIFIED SCHOOL DISTRICT

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

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures	Passed Through To Subrecipients
U.S. DEPARTMENT OF AGRICULTURE				
Passed through CDE:				
Child Nutrition Cluster:				
Especially Needy Breakfast	10.553	13526	$ 2,457,073	$ -
National School Lunch Program	10.555	13524	8,068,756	-
Meal Supplement	10.555	13396	305,265	-
Food Distribution	10.555	13524	1,387,203	-
Total Child Nutrition Cluster			12,218,297	-
Equipment Assistance Grants	10.579	14906	24,839	-
Fresh Fruit and Vegetable Program	10.582	14968	80,053	-
Forest Reserve	10.665	10044	75,502	-
Total U.S. Department of Agriculture			12,398,691	-
U.S. DEPARTMENT OF DEFENSE				
Junior Reserve Officer Training Corps - Air Force	12.000	[1]	126,071	-
U.S. DEPARTMENT OF EDUCATION				
Passed through California Department of Education (CDE):				
Indian Education - Grants to Local Educational Agencies	84.060	10011	$ 15,627	$ -
Carl D. Perkins Vocational and Technical Education	84.048	14894	221,487	-
Title I, Part A - Basic Grants Low Income and Neglected	84.010	14981	7,975,679	10,902
Title I, Part G - Advanced Placement (AP) Test Fee Reimbursement Program	84.330B	14831	17,454	-
Title II, Part A - Supporting Effective Instruction	84.367	14341	1,024,801	249
Title III - English Learner Student Program	84.365	14346	359,574	-
Title IV, Part B - 21st Century Community Learning Centers Program	84.287	14349	900,010	-
Elementary and Secondary School Counseling Grant	84.215E	[1]	345,786	-
Building Assets Reducing Risk (BARR) Investing in Innovation (i3) Fund	84.411	10130	196,735	-

[1] Pass-Through Entity Identifying Number not available.

See accompanying note to supplementary information.

HEMET UNIFIED SCHOOL DISTRICT

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

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures	Passed Through To Subrecipients
Passed through Riverside County Special Education Local Plan Area:				
Special Education Cluster:				
Basic Local Assistance Entitlement, Part B, Section 611	84.027	13379	4,130,267	-
Local Assistance, Part B, Section 611, Private School ISPs	84.027	10115	2,831	-
Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.173	13430	78,017	-
Preschool Local Entitlement, Part B, Section 611 (Age 3-4-5)	84.027A	13682	291,499	-
Mental Health Allocation Plan, Part B, Section 611	84.027	15197	393,517	-
Preschool Staff Development, Part B, Section 619	84.173A	13431	808	-
Total Special Education Cluster			4,896,939	-
Special Education: Project Read	84.323	14913	48,180	-
Total U.S. Department of Education			16,002,272	11,151
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Passed through Riverside County Office of Education (RCOE):				
Head Start	93.600	10016	1,371,748	-
Passed through California Department of Health Services:				
Child Care Initiative Project (CCIP) and Resource & Referral (CRRP) contracts	93.575	13942	28,510	-
Medi-Cal Assistance Program				
Medi-Cal Billing Option	93.778	10013	215,187	-
Medi-Cal Administrative Activities Program	93.778	10060	602,586	-
Total Medi-Cal Assistance Program			817,773	-
Total U.S. Department of Health and Human Services			2,218,031	-
Total Federal Programs			$ 30,745,065	$ 11,151

[1] Pass-Through Entity Identifying Number not available.

See accompanying note to supplementary information.

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2018

ORGANIZATION

The Hemet Unified School District was established on July 1, 1966, and consists of an area comprising approximately 640 square miles. The District operates fourteen elementary schools, four middle schools, three high schools, one continuation school, two alternative independent study schools, an adult school, and two-charter school. There were no boundary changes during the year.

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Horacio Valenzuela	President	2018
Megan Haley	Vice President	2020
Stacey Bailey	Member	2020
Rob Davis	Member	2018
Gene Hikel	Member	2020
Vic Scavarda	Member	2018
Patrick Searl	Member	2020

ADMINISTRATION

Christi Barrett	Superintendent
Vincent Christakos	Assistant Superintendent, Business Services
Tracy Chambers	Assistant Superintendent, Educational Services
Karen Valdes	Assistant Superintendent, Student Services
Darel Hansen	Deputy Superintendent, Human Resources
Pam Buckhout	Director of Fiscal Services

See accompanying note to supplementary information.

HEMET UNIFIED SCHOOL DISTRICT

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

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	6,022.05	6,015.75
Fourth through sixth	4,583.95	4,581.53
Seventh and eighth	2,990.47	2,992.39
Ninth through twelfth	6,266.49	6,225.30
Total Regular ADA	19,862.96	19,814.97
Extended Year Special Education		
Transitional kindergarten through third	16.26	23.77
Fourth through sixth	14.73	17.91
Seventh and eighth	8.46	9.11
Ninth through twelfth	9.94	27.80
Total Extended Year Special Education	49.39	78.59
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	3.55	2.98
Fourth through sixth	9.78	7.96
Seventh and eighth	8.92	3.82
Ninth through twelfth	13.15	11.20
Total Special Education, Nonpublic, Nonsectarian Schools	35.40	25.96
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.20	0.20
Fourth through sixth	0.83	0.83
Seventh and eighth	0.52	0.52
Ninth through twelfth	1.36	1.36
Total Extended Year Special Education, Nonpublic, Nonsectarian Schools	2.91	2.91
Community Day School		
Seventh and eighth	23.33	23.94
Ninth through twelfth	55.40	54.89
Total Community Day School	78.73	78.83
Total ADA	20,029.39	20,001.26

See accompanying note to supplementary information.

HEMET UNIFIED SCHOOL DISTRICT

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

	Final Report	
	Second Period Report	Annual Report
WESTERN CENTER ACADEMY CHARTER		
Regular ADA		
Fourth through sixth	124.83	125.05
Seventh and eighth	260.66	260.52
Ninth through twelfth	262.20	260.33
Total Regular ADA	647.69	645.90
Classroom based ADA		
Regular ADA		
Fourth through sixth	124.83	125.05
Seventh and eighth	260.66	260.52
Ninth through twelfth	262.20	260.33
Total Regular ADA	647.69	645.90

See accompanying note to supplementary information.

HEMET UNIFIED SCHOOL DISTRICT

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

Grade Level	1986-87 Minutes Requirement	2017-18 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Kindergarten	36,000	37,189	180	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		53,940	180	N/A	Complied
Grade 2		54,020	180	N/A	Complied
Grade 3		54,190	180	N/A	Complied
Grades 4 - 6	54,000				
Grade 4		54,336	180	N/A	Complied
Grade 5		54,336	180	N/A	Complied
Grade 6		58,805	180	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		58,805	180	N/A	Complied
Grade 8		58,805	180	N/A	Complied
Grades 9 - 12	64,800				
Grade 9		64,820	180	N/A	Complied
Grade 10		64,820	180	N/A	Complied
Grade 11		64,820	180	N/A	Complied
Grade 12		64,820	180	N/A	Complied

See accompanying note to supplementary information.

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

Western Center Academy

Grade Level	1986-87 Minutes Requirement	2017-18 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Grades 6 - 8	54,000				
Grade 6		58,805	180	N/A	Complied
Grade 7		58,805	180	N/A	Complied
Grade 8		58,805	180	N/A	Complied
Grades 9 - 12	64,800				
Grade 9		64,820	180	N/A	Complied
Grade 10		64,820	180	N/A	Complied
Grade 11		64,820	180	N/A	Complied
Grade 12		64,820	180	N/A	Complied

See accompanying note to supplementary information.

HEMET UNIFIED SCHOOL DISTRICT

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

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

	Cafeteria Fund	Enterprise Fund
FUND BALANCE		
Balance, June 30, 2018, Unaudited Actuals	$ 4,053,649	$ 535,886
Decrease in:		
Deposits and investments	(565,713)	-
Increase in:		
Deferred outflows of resources related to pensions	-	4,025
Deferred inflows of resources related to pensions	-	(282,003)
Net OPEB liability	-	(1,001,074)
Balance, June 30, 2018, Audited Financial Statement	$ 3,487,936	$ (743,166)

See accompanying note to supplementary information.

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

	(Budget) 2019 [1]	2018	2017	2016
GENERAL FUND [3]				
Revenues	$ 283,437,304	$ 263,820,731	$ 254,930,891	$ 242,096,929
Other sources and transfers in	5,508,854	5,860,848	4,704,548	1,669,730
Total Revenues and Other Sources	288,946,158	269,681,579	259,635,439	243,766,659
Expenditures	287,570,276	271,154,623	256,291,539	225,737,870
Other uses and transfers out	2,995,000	6,797,408	3,959,625	3,973,757
Total Expenditures and Other Uses	290,565,276	277,952,031	260,251,164	229,711,627
INCREASE (DECREASE) IN FUND BALANCE	$ (1,619,118)	$ (8,270,452)	$ (615,725)	$ 14,055,032
ENDING FUND BALANCE	$ 22,748,492	$ 26,234,434	$ 34,504,886	$ 35,120,611
AVAILABLE RESERVES [2]	$ 14,529,600	$ 13,898,000	$ 13,015,000	$ 16,637,577
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	5.00%	5.00%	5.00%	7.43%
LONG-TERM OBLIGATIONS [4]	N/A	$ 263,633,720	$ 261,097,612	$ 260,868,460
K-12 AVERAGE DAILY ATTENDANCE AT P-2	20,282	20,029	19,926	19,735

The General Fund balance has decreased by $8,886,177 over the past two years. The fiscal year 2018-2019 budget projects a further decrease of $1,619,118 (6.17 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 deficits in two of the past three years and anticipates incurring an operating deficit during the 2018-2019 fiscal year. Total long-term obligations have increased by $2,765,260 over the past two years.

Average daily attendance has increased by 294 over the past two years. Additional growth of 253 ADA is anticipated during fiscal year 2018-2019.

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

[2] Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained within the General Fund.

[3] General Fund amounts do not include activity related to the consolidation of the Special Reserve Fund for Other Post Employment Benefits as required by GASB Statement No. 54.

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

See accompanying note to supplementary information.

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

Name of Charter School	Included in Audit Report
Western Center Academy (Charter No. 1144)	Yes

See accompanying note to supplementary information.

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HEMET UNIFIED SCHOOL DISTRICT

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

	Charter Schools Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
ASSETS					
Deposits and investments	$ 2,002,090	$ 30,662	$ 103,361	$ 1,908,133	$ 691,400
Receivables	184,457	1,650	335,032	1,600,453	1,722
Due from other funds	163,167	15,210	87	118,879	-
Stores inventories	-	-	-	497,872	-
Total Assets	$ 2,349,714	$ 47,522	$ 438,480	$ 4,125,337	$ 693,122
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	$ 130,004	$ 32,114	$ 92,574	$ 323,725	$ 303,894
Due to other funds	546,400	15,408	252,334	266,295	-
Unearned revenue	-	-	4,000	47,381	-
Total Liabilities	676,404	47,522	348,908	637,401	303,894
Fund Balances:					
Nonspendable	-	-	-	502,942	-
Restricted	61,945	-	89,572	2,984,994	-
Committed	-	-	-	-	389,228
Assigned	1,611,365	-	-	-	-
Total Fund Balances	1,673,310	-	89,572	3,487,936	389,228
Total Liabilities and Fund Balances	$ 2,349,714	$ 47,522	$ 438,480	$ 4,125,337	$ 693,122

See accompanying note to supplementary information.

Capital Facilities Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Capital Projects Fund for Blended Component Units	Debt Service Fund for Blended Component Units	Total Non-Major Governmental Funds
$ 5,700,696	$ 4,226,430	$ 456,671	$ 5,131,568	$ 397,800	$ 20,648,811
38,050	22,247	2,073	-	-	2,185,684
-	-	-	-	-	297,343
-	-	-	-	-	497,872
$ 5,738,746	$ 4,248,677	$ 458,744	$ 5,131,568	$ 397,800	$ 23,629,710
$ 115,633	$ 90,556	$ -	$ -	$ -	$ 1,088,500
-	-	-	-	-	1,080,437
-	-	-	-	-	51,381
115,633	90,556	-	-	-	2,220,318
-	-	-	-	-	502,942
5,623,113	4,156,621	-	5,131,568	397,800	18,445,613
-	1,500	-	-	-	390,728
-	-	458,744	-	-	2,070,109
5,623,113	4,158,121	458,744	5,131,568	397,800	21,409,392
$ 5,738,746	$ 4,248,677	$ 458,744	$ 5,131,568	$ 397,800	$ 23,629,710

HEMET UNIFIED SCHOOL DISTRICT

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

	Charter Schools Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
REVENUES					
Local Control Funding Formula	$ 5,270,378	$ -	$ -	$ -	$ -
Federal sources	106	-	28,510	12,323,190	-
Other State sources	1,010,424	752,993	2,348,541	831,308	-
Other local sources	485,869	21,750	20,303	936,499	8,345
Total Revenues	6,766,777	774,743	2,397,354	14,090,997	8,345
EXPENDITURES					
Current					
Instruction	3,862,069	480,086	1,755,447	-	-
Instruction-related activities:					
Supervision of instruction	350	-	228,008	-	-
Instructional library, media and technology	-	9,125	-	-	-
School site administration	743,539	273,105	156,200	-	-
Pupil services:					
Food services	-	-	-	13,271,624	-
All other pupil services	219,325	4,182	10,809	-	-
Administration:					
Data processing	128	-	-	-	-
All other administration	201,477	39,551	111,189	604,996	-
Plant services	1,237,202	1,968	54,784	256,804	1,672,468
Ancillary services	96,885	-	-	-	-
Facility acquisition and construction	-	-	-	3,800	843,057
Debt service					
Principal	-	-	-	-	-
Interest and other	-	-	-	-	-
Total Expenditures	6,360,975	808,017	2,316,437	14,137,224	2,515,525
Excess (Deficiency) of Revenues Over Expenditures	405,802	(33,274)	80,917	(46,227)	(2,507,180)
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	91,140	2,500,000
Transfers out	(379,416)	-	-	-	-
Net Financing Sources (Uses)	(379,416)	-	-	91,140	2,500,000
NET CHANGE IN FUND BALANCES	26,386	(33,274)	80,917	44,913	(7,180)
Fund Balances - Beginning	1,646,924	33,274	8,655	3,443,023	396,408
Fund Balances - Ending	$ 1,673,310	$ -	$ 89,572	$ 3,487,936	$ 389,228

See accompanying note to supplementary information.

Building Fund	Capital Facilities Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Capital Projects Fund for Blended Component Units	Debt Service Fund for Blended Component Units	Total Non-Major Governmental Funds
$ -	$ -	$ -	$ -	$ -	$ -	$ 5,270,378
-	-	-	-	-	-	12,351,806
-	-	-	-	-	-	4,943,266
2,587	1,049,370	78,694	9,073	559,217	5,399	3,177,106
2,587	1,049,370	78,694	9,073	559,217	5,399	25,742,556
-	-	-	-	-	-	6,097,602
-	-	-	-	-	-	228,358
-	-	-	-	-	-	9,125
-	-	-	-	-	-	1,172,844
-	-	-	-	-	-	13,271,624
-	-	-	-	-	-	234,316
-	-	-	-	-	-	128
-	131,598	-	-	-	-	1,088,811
-	-	-	-	-	-	3,223,226
-	-	-	-	-	-	96,885
1,163,083	340,373	1,730,758	-	-	-	4,081,071
-	-	-	-	-	1,840,000	1,840,000
-	-	-	-	-	1,878,430	1,878,430
1,163,083	471,971	1,730,758	-	-	3,718,430	33,222,420
(1,160,496)	577,399	(1,652,064)	9,073	559,217	(3,713,031)	(7,479,864)
-	1,029,229	-	495,000	-	3,711,268	7,826,637
-	-	-	(834,737)	(1,029,229)	-	(2,243,382)
-	1,029,229	-	(339,737)	(1,029,229)	3,711,268	5,583,255
(1,160,496)	1,606,628	(1,652,064)	(330,664)	(470,012)	(1,763)	(1,896,609)
1,160,496	4,016,485	5,810,185	789,408	5,601,580	399,563	23,306,001
$ -	$ 5,623,113	$ 4,158,121	$ 458,744	$ 5,131,568	$ 397,800	$ 21,409,392

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 Billing Option funds that in the previous period were recorded as revenues but were unspent. These unspent balances have been expended in the current period. These unspent balances are reported as legally restricted ending balances within the General Fund.

Description	CFDA Number	Amount
Total Federal Revenues From the Statement of Revenues, Expenditures and Changes in Fund Balances:		$ 30,666,008
Medi-Cal Billing Option	93.778	79,057
Total Schedule of Expenditures of Federal Awards		$ 30,745,065

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.

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2018

Schedule of Instructional Time

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

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

Reconciliation of Annual Financial and Budget Report With Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Annual Financial and Budget Report Unaudited Actuals 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 Balance

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

INDEPENDENT AUDITOR'S REPORTS

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

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
Hemet Unified School District
Hemet, 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, the business-type activities, each major fund, and the aggregate remaining fund information of Hemet Unified School District (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Hemet Unified School District's basic financial statements, and have issued our report thereon dated November 21, 2018.

Emphasis of Matter - Change in Accounting Principles

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

Internal Control Over Financial Reporting

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

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

We noted certain matters that we reported to management of Hemet Unified School District in a separate letter dated November 21, 2018.

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.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
November 21, 2018

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

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

Governing Board
Hemet Unified School District
Hemet, California

Report on Compliance for Each Major Federal Program

We have audited Hemet Unified 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 Hemet Unified School District's major Federal programs for the year ended June 30, 2018. Hemet Unified School District's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

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Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

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

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
November 21, 2018

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

VALUE THE difference

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Hemet Unified School District
Hemet, California

Report on State Compliance

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

Management's Responsibility

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

Auditor's Responsibility

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

Unmodified Opinion

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

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

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

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

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

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

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

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

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
November 21, 2018

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

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

Identification of major Federal programs:

CFDA Numbers	Name of Federal Program or Cluster
84.367	Title II, Part A, Supporting Effective Instruction
10.553, 10.555	Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	$ 922,352
Auditee qualified as low-risk auditee?	Yes

STATE AWARDS

Type of auditor's report issued on compliance for State programs:	Unmodified

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

None reported.

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

None reported.

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

None reported.

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

The following finding represents an instance of noncompliance relating to State program laws and regulations. The finding has been coded as follows:

Five Digit Code	AB 3627 Finding Type
40000	State Compliance

2017-001 40000 – After School Education and Safety Program

Criteria or Specific Requirements

Compliance requirements, detailed in Education code Section 8483.7, mandate that schools maintain adequate source documents supporting the number of students served by the After School Program (the Program) as reported semi-annually to the California Department of Education (CDE).

Condition

There appears to be inadequate documentation indicating actual student participation in the Program. Source documents used for recording attendance do not consistently agree with the records included in the total number of students served.

Questioned Costs

There were no questioned costs associated with the condition identified.

Context

The condition identified was determined through analysis of attendance records from two of the sites that operate the Program. Manual sign out rosters were reviewed for each child's sign out time in order to determine daily participation. The auditor selected four schools for the first semi-annual reporting period dated July 1, 2016 to December 31, 2016. The auditor reviewed a sample of manual sign out rosters for the month of September and noted nine exceptions in a sample size of 40 students.

Effect

Conditions identified make the Program's ability to report an accurate number of students served to the State as required as identified in the State Audit Guide in the required semi-annual attendance reports difficult. Per Education Code Section 8483.7, the CDE may terminate a grant that does not comply with fiscal reporting, attendance reporting, or outcomes reporting requirements. The CDE may also withhold the grant allocation for the program if the prior year reporting is outstanding.

Cause

It appears that the condition identified has materialized as a result of the absence of properly maintaining the standardized attendance recording and reporting procedures by those responsible for administering the program.

Recommendation

The district may want to consider revising procedures used to take attendance. Revised procedures should incorporate standardized procedures that are necessary to record and report attendance related to the program that are accurate and consistent. The District should clearly communicate its expectation for attendance documentation to all program administrators in order to prevent future non-compliance issues..

Corrective Action Plan

Hemet Unified School District has revised the attendance taking procedures to ensure accurate and consistent attendance for the After School Education and Safety Program. The steps taken by the District are by requiring timely attendance submissions and additional layers of review at the administration level. The District has clearly communicated the expectation for accurate attendance documentation to all program administrators and appropriate personnel to prevent future non-compliance.

Current Status

Implemented

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

Governing Board
Hemet Unified School District
Hemet, California

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

However, during our audit we noted matters that are an opportunity for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 15, 2017, on the financial statements of Hemet Unified School District.

CURRENT YEAR OBSERVATIONS AND RECOMMENDATIONS

ACACIA MIDDLE SCHOOL

Change Fund

Observation

The site maintains a change fund for the student store or to be used during events. However, the change fund is not reported as an asset account on the balance sheet thereby understating the total assets. The change fund that is maintained by the school site is $200. The current total on the change fund is listed as a liability account with a balance of $60.

Recommendation

According to the policies and procedures outlined in the Fiscal Crisis and Management Assistance Team's manual titled, ASB Accounting Manual, Fraud Prevention Guide and Desk Reference, a change fund is normally checked out from the bookkeeper for individual fundraisers or activities and should be used solely for making change. Expenditures should not be made from this account under any circumstances. When the fundraiser is complete, the change fund should be deposited back into the bank account. If it is not deposited, it should be accounted for as an asset on the balance sheet.

Inventory – Perpetual Inventory

Observation

Perpetual Inventory is not being maintained. According to the policies and procedures outlined in the Fiscal Crisis and Management Assistance Team's manual titled, ASB Accounting Manual, Fraud Prevention Guide and Desk Reference, a physical inventory should be taken quarterly under supervision of the student store advisor.

10681 Foothill Blvd., Suite 300, Rancho Cucamonga, CA 91730 P 909.466.4410 F 909.466.4431 W vtdcpa.com

The inventory listing should contain a description, unit cost, quantity, and extended value. This information is necessary in order to analyze sales activity, profits, and to determine if merchandise has been lost or stolen.

Recommendation

The student body should maintain a perpetual inventory of goods purchased and sold and should perform a physical inventory count at least quarterly. Perpetual inventory involves the continual updating of the inventory records. These updates typically include additions to and subtractions from inventory for such activities as purchased inventory and goods sold from inventory. This will allow the school site to know what they have on hand and will make it easier to compare the physical count to the amount in the software system.

Revenue Potentials

Observation

Revenue potential forms are not being used to document and control fundraising activities as they occur. These forms supply an element of internal controls without which it is difficult to determine the success of a fundraiser and to track money as it is spent and received.

Recommendation

As the revenue potential form is a vital internal control tool, it should be used to document revenues, expenditures, potential revenue and actual revenue. This allows an analysis of the fundraiser to be conducted, indicating to the staff the success or failure of the completed fundraiser. Once the fundraiser is complete, the actual results should be summarized and compared to the expected results to determine if the fundraiser generated the profit expected. Discrepancies should be investigated and explained and a determination should be made as to whether or not it is beneficial to conduct the fundraiser in the future.

Cash Disbursements - Documentation

Observation

6 of 6 disbursements were not adequately supported by proper receiving documentation. Receiving documentation ensures that the club/ASB received all of the items ordered. By initialing or signing an invoice, the bookkeeper knows that all the merchandise was received prior to paying for the order. The disbursements noted are as follows:

- Check numbers: 7857, 7865, 7884, 7895, 7903, & 7907, did not have proper receiving documentation.

Recommendation

The site should review the cash disbursement procedures outlined in the Fiscal Crisis and Management Assistance Team's manual titled, ASB Accounting Manual, Fraud Prevention Guide and Desk Reference. The manual explains that three signatures, one being a student representative, are required pursuant to California Educational Code Section 48933(5)(b) the designated receiver (this could be either the ASB bookkeeper or the club advisor) will open the shipment and compare the shipped items to the packing slip. After all the items have been compared to the packing slip, the receiver will sign the receiving copy of the purchase order. If the advisor is receiving the goods, the advisor should provide the ASB bookkeeper with a signed receiving report (copy of the purchase order) and the packing slip.

HAMILTON HIGH SCHOOL

Student Store

Observation

Daily sales reports are not generated by the student store.

Recommendation

Daily sales reports should be maintained and reconciled to deposits.

DIAMOND VALLEY MIDDLE SCHOOL

Negative Balances

Observation

In reviewing the financial statements for the student body accounts we noted that six had negative balances. Since the student body accounts represent individual portions of the cash and asset pool, by some having negative balances, they have in actuality spent the available funds of other accounts. A key control in any internal control system is the control of expenditures by ensuring the expenditure is allowable and that the account requesting the expenditure has the funds to cover it. This control feature has not been sufficiently followed.

Recommendation

The site bookkeeper has a fiduciary responsibility to all student body organizations to act in each groups best interest. By allowing certain clubs to spend in excess of their available reserves, the bookkeeper is not meeting this responsibility to the other clubs and organizations. Request for disbursements from student groups should be reviewed for appropriateness and also to ensure that funds are available in the groups account.

PRIOR YEAR OBSERVATIONS AND RECOMMENDATIONS

HAMILTON HIGH SCHOOL

Prohibited Expenditures

Observation

Auditor noted that Associated Student Body had prohibited disbursements in the amount of $100.87 for disbursements.

Recommendation

Expenditure of ASB funds for the following items is not usually allowable because they do not directly promote the general welfare, morale or educational experience of the students, or are considered a District responsibility, or are a gift of public funds;

- Salaries or supplies that are the responsibility of the District.
  - Curriculum supplies, and office supplies and equipment.
  - Repair and maintenance of District-owned facilities and equipment

Because student body funds are to benefit students as a group and not individuals, awards and scholarships are generally discouraged.

Current Status

Implemented.

Student Store

Observation

Daily sales reports are not generated by the student store.

Recommendation

Daily sales reports should be maintained and reconciled to deposits.

Current Status

Not implemented, see current year observation and recommendations.

DIAMOND VALLEY MIDDLE SCHOOL

Negative Balances

Observation

In reviewing the financial statements for the student body accounts we noted that six had negative balances. Since the student body accounts represent individual portions of the cash and asset pool, by some having negative balances, they have in actuality spent the available funds of other accounts. A key control in any internal control system is the control of expenditures by ensuring the expenditure is allowable and that the account requesting the expenditure has the funds to cover it. This control feature has not been sufficiently followed.

Recommendation

The site bookkeeper has a fiduciary responsibility to all student body organizations to act in each groups best interest. By allowing certain clubs to spend in excess of their available reserves, the bookkeeper is not meeting this responsibility to the other clubs and organizations. Request for disbursements from student groups should be reviewed for appropriateness and also to ensure that funds are available in the group's account.

Current Status

Not implemented, see current year observation and recommendations.

Associated Student Body – Inventory

Observation

Inventory dollar amount was calculated incorrectly, causing a misstatement of inventory on the balance sheet.

Recommendation

Supporting schedules and worksheets should be corrected to reflect the actual inventory amount on a regular basis.

Current Status

Implemented.

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

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
November 21, 2018

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APPENDIX C

PROPOSED FORM OF OPINION OF BOND COUNSEL

Upon issuance and delivery of the Series A Bonds, Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the District, proposes to render its final approving opinion with respect to the Series A Bonds in substantially the following form:

[Date of Delivery]

Hemet Unified School District
Hemet, California

Hemet Unified School District
(Riverside County, California)
2019 General Obligation Bonds, Election of 2018, Series A
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the Hemet Unified School District (the "District"), which is located in the County of Riverside (the "County"), in connection with the issuance by the District of $27,500,000 aggregate principal amount of bonds designated as "Hemet Unified School District (Riverside County, California) 2019 General Obligation Bonds, Election of 2018, Series A" (the "Series A Bonds"), representing part of an issue in the aggregate principal amount of $150,000,000 authorized at an election held in the District on November 6, 2018. The Series A Bonds are issued under and pursuant to a resolution of the Governing Board of the District adopted on February 5, 2019 (the "Resolution").

In such connection, we have reviewed the Resolution, the Tax Certificate of the District, dated the date hereof (the "Tax Certificate"), certificates of the District, the County and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Series A Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the District. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Resolution and the Tax Certificate, including, without limitation, covenants and agreements compliance with which is necessary to ensure that future actions, omissions or events will not cause interest on the Series A Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Series A Bonds, the Resolution and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against school districts or counties in the State of California. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), right of set-off, arbitration, judicial reference, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the assets described in or as subject to the lien of the Resolution, or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement, dated February 13, 2019, or other offering material relating to the Series A Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Series A Bonds constitute valid and binding obligations of the District.

2. The Resolution has been duly and legally adopted and constitutes a valid and binding obligation of the District.

3. The Board of Supervisors of the County has power and is obligated to levy *ad valorem* taxes without limitation as to rate or amount upon all property within the District's boundaries subject to taxation by the District (except certain personal property which is taxable at limited rates) for the payment of the Series A Bonds and the interest thereon.

4. Interest on the Series A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Interest on the Series A Bonds is not a specific preference item for purposes of the federal alternative minimum tax. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Series A Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

THIS CONTINUING DISCLOSURE CERTIFICATE (this "Disclosure Certificate") is executed and delivered by the Hemet Unified School District (the "District") in connection with the issuance of $27,500,000 aggregate principal amount of Hemet Unified School District (Riverside County, California) 2019 General Obligation Bonds, Election of 2018, Series A (the "Bonds"). The Bonds are being issued pursuant to a resolution adopted by the Governing Board of the District on February 5, 2019 (the "Resolution"). The District covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4 hereof.

"Beneficial Owner" shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

"Dissemination Agent" shall mean Fieldman, Rolapp & Associates, Inc. doing business as Applied Best Practices, or any successor Dissemination Agent designated in writing by the District and which has filed with the District a written acceptance of such designation.

"Holder" shall mean the person in whose name any Bond shall be registered.

"Listed Events" shall mean any of the events listed in Section 5(a) or (b) hereof.

"MSRB" shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at http://emma.msrb.org.

"Official Statement" shall mean the Official Statement, dated February 13, 2019 (including all exhibits or appendices thereto), relating to the offer and sale of Bonds.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 3. <u>Provision of Annual Reports</u>. (a) The District shall, or shall cause the Dissemination Agent to, not later than nine months after the end of the District's fiscal year (which due date shall be March 31 of each year, so long as the fiscal year ends on June 30), commencing with the report for the 2018-2019 Fiscal Year (which is due not later than March 31, 2020), provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 hereof. The Annual Report must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB, and may cross-reference other information as provided in Section 4 hereof; provided, however, that the audited financial statements of the District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the District's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(e) hereof. The Annual Report shall be submitted on a standard form in use by industry participants or other appropriate form and shall identify the Bonds by name and CUSIP number.

(b) Not later than 15 business days prior to the date specified in subsection (a), the District shall provide the Annual Report to the Dissemination Agent (if other than the District). If the District is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the District shall send a notice in a timely manner to the MSRB, in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

(i) (if the Dissemination Agent is other than the District), provide any Annual Report received by it to the MSRB as provided herein; and

(ii) (if the Dissemination Agent is other than the District), file a report with the District certifying that the Annual Report has been provided to the MSRB pursuant to this Disclosure Certificate, stating the date it was provided to the MSRB.

Section 4. <u>Content of Annual Reports</u>. The District's Annual Report shall contain or include by reference the following:

(a) Audited financial statements of the District for the preceding fiscal year, prepared in accordance with the laws of the State of California and including all statements and information prescribed for inclusion therein by the Controller of the State of California. If the District's audited financial statements are not available by the time the Annual Report is required to be provided to the MSRB pursuant to Section 3(a) hereof, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be provided to the MSRB in the same manner as the Annual Report when they become available.

(b) To the extent not included in the audited financial statements of the District, the Annual Report shall also include the following:

(i) The adopted budget of the District for the then current fiscal year, or a summary thereof;

(ii) The average daily attendance in District schools on an aggregate basis for the last completed fiscal year;

(iii) The District's outstanding debt;

(iv) Information regarding total assessed valuation (secured, unsecured and total) of taxable properties within the District for the then current fiscal year, if and to the extent made available by the County of Riverside (the "County"). If and to the extent such information is not made available by the County, a statement to that effect shall be included in the Annual Report;

(v) Information regarding ten taxpayers with the greatest combined ownership of taxable property in the District for the then current fiscal year, if and to the extent made available by the County. If and to the extent such information is not made available by the County, a statement to that effect shall be included in the Annual Report; and

(vi) If the County no longer includes the tax levy for payment of the Bonds in its Teeter Plan, information regarding total secured tax charges and delinquencies on taxable properties within the District for the last completed fiscal year, if and to the extent made available by the County. If and to the extent such information is not made available by the County, a statement to that effect shall be included in the Annual Report.

(c) In addition to any of the information expressly required to be provided under subsections (a) and (b) hereof, the District shall provide such further information, if any, as may be necessary to make the specifically required statements, in light of the circumstances under which they are made, not misleading.

Any or all of the items listed above may be set forth in one or a set of documents or may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which have been made available to the public on the MSRB's website. The District shall clearly identify each such other document so included by reference.

Section 5. <u>Reporting of Significant Events</u>. (a) The District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not later than ten business days after the occurrence of the event:

(i) principal and interest payment delinquencies;

(ii) unscheduled draws on debt service reserves reflecting financial difficulties;

(iii) unscheduled draws on credit enhancements reflecting financial difficulties;

(iv) substitution of the credit or liquidity providers or their failure to perform;

(v) adverse tax opinions or issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);

(vi) tender offers;

(vii) defeasances;

(viii) rating changes; or

(ix) bankruptcy, insolvency, receivership or similar event of the obligated person;

For the purposes of the event identified in subparagraph (ix), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) The District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material, in a timely manner not later than ten business days after the occurrence of the event:

(i) unless described in paragraph 5(a)(v) hereof, other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;

(ii) modifications to rights of Bond Holders;

(iii) optional, unscheduled or contingent Bond calls;

(iv) release, substitution, or sale of property securing repayment of the Bonds;

(v) non-payment related defaults;

(vi) the consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; or

(vii) appointment of a successor or additional paying agent or the change of name of a paying agent.

(c) The District shall give, or cause to be given, in a timely manner, notice of a failure to provide the annual financial information on or before the date specified in Section 4 hereof, as provided in Section 4(b) hereof.

(d) Whenever the District obtains knowledge of the occurrence of a Listed Event described in Section 5(b) hereof, the District shall determine if such event would be material under applicable federal securities laws.

(e) If the District learns of the occurrence of a Listed Event described in Section 5(a) hereof, or determines that knowledge of a Listed Event described in Section 5(b) hereof would be material under applicable federal securities laws, the District shall within ten business days of occurrence file a notice of such occurrence with the MSRB in electronic format, accompanied by such identifying information as is prescribed by the MSRB. Notwithstanding the foregoing, notice of the Listed Event described in subsection (b)(iii) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Resolution.

Section 6. Termination of Reporting Obligation. The District's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the District shall give notice of such termination in the same manner as for a Listed Event under Section 5(e) hereof.

Section 7. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Certificate. The initial Dissemination Agent shall be Fieldman, Rolapp & Associates, Inc. doing business as Applied Best Practices.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Section 3(a) hereof, Section 4 hereof, or Section 5(a) or (b) hereof, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) the undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by the Holders in the same manner as provided in the Resolution for amendments to the Resolution with the consent of Holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the District shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the District. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(e) hereof, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate; provided, that any such action may be instituted only in Superior Court of the State of California in and for the County or in U.S. District Court in or nearest to the County. A default under this Disclosure Certificate shall not be deemed an event of default under the Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and (if the Dissemination Agent is other than the District), the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Dated: February 26, 2019

HEMET UNIFIED SCHOOL DISTRICT

By: ___________________________________

ACCEPTED AND AGREED TO:

FIELDMAN, ROLAPP & ASSOCIATES, INC. DOING BUSINESS AS APPLIED BEST PRACTICES, as Dissemination Agent

By: ___________________________________
Authorized Signatory

EXHIBIT A

NOTICE TO THE MUNICIPAL SECURITIES RULEMAKING BOARD OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	HEMET UNIFIED SCHOOL DISTRICT
Name of Issue:	Hemet Unified School District (Riverside County, California) 2019 General Obligation Bonds, Election of 2018, Series A
Date of Issuance:	February 26, 2019

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Certificate of the District, dated February 26, 2019. [The District anticipates that the Annual Report will be filed by _____________.]

Dated:_______________

HEMET UNIFIED SCHOOL DISTRICT

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APPENDIX E

RIVERSIDE COUNTY POOLED INVESTMENT FUND

The following information and the investment policy of the County have been provided by the Treasurer-Tax Collector (the "County Treasurer"), and has not been confirmed or verified by the District or the Initial Purchaser. No representation is made herein as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof, or that the information contained or incorporated hereby by reference is correct as of any time subsequent to its date. Further information may be obtained from the County Treasurer.

The County Treasurer maintains one Pooled Investment Fund (the "PIF") for all local jurisdictions having funds on deposit in the County Treasury. As of December 31, 2018, the portfolio assets comprising the PIF had a market value of $7,490,825,981.43.

State law requires that all operating moneys of the County, school districts, and certain special districts be held by the County Treasurer. On June 30, 2018, the Auditor-Controller performed an analysis on the County Treasury which resulted in the identification and classification of "mandatory" vs. "discretionary" depositors. The County Auditor-Controller reports that collectively, these mandatory deposits constituted approximately 80.62% of the funds on deposit in the County Treasury, while approximately 19.38% of the total funds on deposit in the County Treasury represented discretionary deposits.

While State law permits other governmental jurisdictions to participate in the County's PIF, the desire of the County Treasurer is to maintain a stable depositor base for those entities participating in the PIF.

All purchases of securities for the PIF are to be made in accordance with the County Treasurer's 2018 Statement of Investment Policy, which is more restrictive than the investments authorized pursuant to Sections 53601 and 53635 of the California Government Code. The Policy Statement requires that all investment transactions be governed by first giving consideration to the safety and preservation of principal and liquidity sufficient to meet daily cash flow needs prior to achieving a reasonable rate of return on the investment. Investments are not authorized in reverse-repurchase agreements except for an unanticipated and immediate cash flow need that would otherwise cause the Treasurer to sell portfolio securities prior to maturity at a principal loss.

The investments in the Treasurer's Pooled Investment Fund as of December 31, 2018 were as follows:

U.S. Treasury Securities	$ 357,292,832.83	4.76%
Federal Agency Securities	3,572,643,501.62	47.61
Cash Equivalent & Money Market Funds	1,126,000,000.00	15.01
Commercial Paper	1,122,349,405.15	14.96
NCD	830,998,200.63	11.07
Medium Term Notes	301,555,300.34	4.02
Municipal Notes	193,205,699.50	2.57
Certificates of Deposit	-	-
Repurchase Agreements	-	-
Local Agency Obligations[(1)]	120,000.00	0.002
Total Book Value	$7,504,164,940.07	100.00%
Book Yield	2.27%	
Weighted Average Maturity(years)	1.004	

[(1)] Represents County Obligations issued by the Riverside District Court Financing Corporation.

As of December 31, 2018, the market value of the PIF was 99.82% of book value. The Treasurer estimates that sufficient liquidity exists within the portfolio to meet daily expenditure needs without requiring any sale of securities at a principal loss prior to their maturity.

In keeping with Sections 53684 and 53844 of the California Government Code, all interest, income, gains and losses on the portfolio are distributed quarterly to participants based upon their average daily balance except for specific investments made on behalf of a particular fund. In these instances, Sections 53844 requires that the investment income be credited to the specific fund in which the investment was made.

The Board has established an "Investment Oversight Committee" in compliance with California Government Code Section 27131. Currently, the Committee is composed of the County Finance Director, the County Treasurer-Tax Collector, the County Superintendent of Schools, a school district representative and a public member at large. The purpose of the committee is to review the prudence of the County's investment policy, portfolio holdings and investment procedures, and to make any findings and recommendations known to the Board. As of September 29, 2004, the State no longer required the County to have a local oversight committee; however, the County has elected to maintain the committee. The committee is utilized by the County to safeguard public funds and to perform other internal control measures.

The County has obtained a rating on the PIF of "AAA-bf" from Moody's Investors Service and "AAAf/S1" rating from Fitch Ratings. There is no assurance that such ratings will continue for any given period of time or that any such rating may not be lowered, suspended or withdrawn entirely by the respective rating agency if, in the judgment of such rating agency, circumstances so warrant.

Neither the District nor the Initial Purchaser has made an independent investigation of the investments in the PIF and neither has made an assessment of the current County investment policy, a copy of which is attached hereto. The value of the various investments in the PIF will fluctuate on a daily basis as a result of a multitude of factors, including generally prevailing interest rates and other economic conditions. Additionally, the County Treasurer, with the approval of the IOC and the County Board of Supervisors, may change the County investment policy at any time. Therefore, there can be no assurance that the values of the various investments in the PIF will not vary significantly from the values described herein.

APPENDIX F

COUNTY OF RIVERSIDE
OFFICE OF THE TREASURER TAX-COLLECTOR
STATEMENT OF INVESTMENT POLICY

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COUNTY OF RIVERSIDE
OFFICE OF THE TREASURER-TAX-COLLECTOR
STATEMENT OF INVESTMENT POLICY

INTRODUCTION

The Treasurer's Statement of Investment Policy is presented annually to the County Investment Oversight Committee for review and to the Board of Supervisors for approval, pursuant to the requirements of Sections 53646(a) and 27133 of the California Government Code (Code Section). This policy will become effective immediately upon approval by the Board of Supervisors.

SCOPE

The Treasurer's Statement of Investment Policy is limited in scope to only those county, school, special districts and other fund assets actually deposited and residing in the County Treasury. It does not apply to bond funds or other assets belonging to the County of Riverside, or any affiliated public agency the assets of which reside outside of the County Treasury.

FIDUCIARY RESPONSIBILITY

Code Section 27000.3 declares each treasurer, or governing body authorized to make investment decisions on behalf of local agencies, to be a trustee and therefore a fiduciary subject to the prudent investor standard. This standard, as stated in Code Section 27000.3 requires that "When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, the county treasurer or the board of supervisors, as applicable, shall act with care, skill, prudence, and diligence under the circumstances then prevailing, specifically including, but not limited to, the general economic conditions and the anticipated needs of the county and other depositors, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the county and the other depositors."

PORTFOLIO OBJECTIVES

The first and primary objective of the Treasurer's investment of public funds is to **safeguard investment principal**; second, to maintain sufficient **liquidity** within the portfolio to meet daily cash flow requirements; and third, to achieve a reasonable rate of return or **yield** on the portfolio consistent with these objectives. The portfolio shall be actively managed in a manner that is responsive to the public trust and consistent with State law.

AUTHORITY

Statutory authority for the Treasurer's investment and safekeeping functions are found in Code Sections 53601 and 53635 et. seq. The Treasurer's authority to make investments is to be renewed annually, pursuant to state law. It was last renewed by the Board of Supervisors on October 30, 2018 by County Ordinance No.767.22. Code Section 53607 effectively requires the legislative body to delegate investment authority of the County on an annual basis.

AUTHORIZED INVESTMENTS

Investments shall be restricted to those authorized in Code Sections 53601 and 53635 as amended and as further restricted by this policy statement. All investments shall be governed by the restrictions shown in Schedule I which defines the type of investments authorized, maturity limitations, portfolio diversification, credit quality standards (two of the three nationally recognized ratings shall be used for corporate and municipal securities), and purchase restrictions that apply.

STAFF AUTHORIZED TO MAKE INVESTMENTS

Only the Treasurer-Tax Collector, Jon Christensen, Chief Investment Manager, Giovane Pizano, Deputy Investment Manager, Steve Faeth, and Assistant Investment Manager, Isela Licea, are authorized to make investments and to order the receipt and delivery of investment securities among custodial security clearance accounts.

AUTHORIZED BROKER/DEALERS

Securities transactions are limited solely to those noted on Schedule II of this policy.

DAILY ACCOUNTABILITY AND CONTROL

Except for emergencies or previous authorization by the Treasurer-Tax Collector, all investment transactions are to be conducted at the Treasurer-Tax Collector's office (if open and available to conduct business), documented, and reviewed by the Treasurer-Tax Collector. All investment transactions will be entered daily into the Treasurer's internal financial accounting system with copies to be filed on a timely basis. Portfolio income shall be reconciled daily against cash receipts and quarterly, prior to the distribution of earnings among those entities sharing in pooled fund investment income.

SECURITY CUSTODY & DELIVERIES

All securities, except for money market funds registered in the County's name and securities issued by the County or other local agencies shall be deposited for safekeeping with banks contracted to provide the County Treasurer with custodial security clearance services. These third party trust department arrangements provide the County with a perfected interest in, and ownership and control over, the securities held by the custodian on the County's behalf and are intended to protect the County from the bank's own creditors in the event of a bank default and filing for bankruptcy. Securities are **NOT** to be held in investment firm/broker dealer accounts. All security transactions are to be conducted on a "delivery versus payment basis." Confirmation receipts on all investments are to be reviewed immediately for conformity with County transaction documentation. Securities issued by local agencies purchased directly shall be held in the Treasurer's vault. The security holdings shall be reconciled with the custodian holding records daily. The Treasurer's Fiscal Compliance unit will audit purchases daily for compliance, and audit holding records monthly.

COMPETITIVE PRICING

Investment transactions are to be made at current market value and competitively priced whenever possible. Competitive pricing does not necessarily require submission of bids, but does require adequate comparative analysis. The current technology utilized by the Treasury provides this information.

MATURITY LIMITATIONS
No investment shall exceed a final maturity date of five years from the date of purchase unless it is authorized by the Board of Supervisors pursuant to Code Section 53601.

LIQUIDITY
The portfolio shall maintain a weighted average days to maturity (WAM) of less than 541 days or 1.5 years. To provide sufficient liquidity to meet daily expenditure requirements, the portfolio shall maintain at least 40% of its total value in securities having maturities 1 year or less.

SECURITIES LENDING
The Treasurer may engage in securities lending activity limited to 20% of the portfolio's book value on the date of transaction. Instruments involved in a securities lending program are restricted to those securities pursuant to Code Section 53601 and by the Treasurer's Statement of Investment Policy.

REVERSE REPURCHASE AGREEMENTS
The Treasury shall not engage in any form of leverage for the purpose of enhancing portfolio yield. There shall be no entry into reverse repurchase agreements except for temporary and unanticipated cash flow requirements that would cause the Treasurer to sell securities at a principal loss. Any reverse repurchase agreements are restricted pursuant to Code Section 53601 and by the Treasurer's Statement of Investment Policy.

MITIGATING MARKET & CREDIT RISKS
Safety of principal is the primary objective of the portfolio. Each investment transaction shall seek to minimize the County's exposure to market and credit risks by giving careful and ongoing attention to the: (1) credit quality standards issued by the nationally recognized rating agencies on the credit worthiness of each issuer of the security, (2) limiting the concentration of investment in any single firm as noted in Schedule I, (3) by limiting the duration of investment to the time frames noted in Schedule I, and (4) by maintaining the diversification and liquidity standards expressed within this policy.

TRADING & EARLY SALE OF SECURITIES
All securities are to be purchased with the intent of holding them until maturity. However, in an effort to minimize market and credit risks, securities may be sold prior to maturity either at a profit or loss when economic circumstances, trend in short-term interest rates, or a deterioration in credit-worthiness of the issuer warrants a sale of the securities to either enhance overall portfolio yield or to minimize further erosion and loss of investment principal. Such sales should take into account the short and long term impacts on the portfolio. However, the sale of a security at a loss can only be made after first securing the approval of the Treasurer-Tax Collector.

PURCHASE OF WHEN ISSUED SECURITIES
When issued (W.I.) purchases of securities and their subsequent sale prior to cash settlement are authorized as long as sufficient cash is available to consummate their acceptance into the Treasurer's portfolio on the settlement date.

PORTFOLIO REPORTS/AUDITING

Portfolio reports required by Code Sections 53607 and 27133(e) shall be filed monthly with the Board of Supervisors, Investment Oversight Committee, Superintendent of Schools, Executive Officer, County Auditor Controller and interested parties. Consistent with Board Policy B-21 (County Investment Policy Statement), § III A, an outside compliance audit will be conducted annually. Outside audits will be conducted at least biennially by an independent auditing firm selected by the Board of Supervisors, per Board Minute Order No. 3.48. Reports are posted monthly on the Treasurer's website:
http://www.countytreasurer.org/Treasurer/TreasurersPooledInvestmentFund/MonthlyReports.aspx

SPECIFIC INVESTMENTS

Specific investments for individual funds may be made in accordance with the Treasurer's Statement of Investment Policy, upon written request and approval of the responsible agency's governing board, and, approval of the Treasurer-Tax Collector. Investments outside of the policy may be made on behalf of such funds with approval of the governing Board and approval of the Treasurer-Tax Collector. All specific investments shall be memorialized by a Memorandum of Understanding. With the purchase of specific investments, the fund will be allocated the earnings and/or loss associated with those investments. The Treasurer-Tax Collector reserves the right to allocate a pro-rata charge for administrative costs to such funds.

PERFORMANCE EVALUATION

Portfolio performance is monitored daily and evaluated monthly in comparison to the movement of the Treasurer's Institutional Money Market Index (TIMMI), or other suitable index. Over time, the portfolio rate of return should perform in relationship to such an index. Regular meetings are to be conducted with the investment staff to review the portfolio's performance, in keeping with this policy, and, current market conditions.

INVESTMENT OVERSIGHT COMMITTEE

In accordance with Code Section 27130 et seq. of the Code, the Board of Supervisors has established an Investment Oversight Committee. The role of the Committee is advisory in nature. It has no input on day to day operations of the Treasury.

QUARTERLY DISTRIBUTION OF INVESTMENT EARNINGS

Portfolio income, including gains and losses (if any), will be distributed quarterly in compliance with Sections 53684 and 53844 of the Code which give the Treasurer broad authority to apportion earnings and losses among those participants sharing in pooled investment income, and, except for specific investments in which the interest income is to be credited directly to the fund from which the investment was made, all investment income is to be distributed pro-rata based upon each participant's average daily cash balance for the calendar quarter. Any subsequent adjustments of reported earnings by the Auditor-Controller will be first reviewed and approved by the Treasurer to assure compliance with Code Sections 53684 and 53844.

QUARTERLY APPORTIONMENT OF ADMINISTRATIVE COSTS

Prior to the quarterly apportionment of pooled fund investment income, the County Treasurer is permitted, pursuant to Code Section 27013, to deduct from investment income before the distribution thereof, the actual cost of the investment, audit, deposit, handling and distribution of such income. Accordingly, in keeping with Code Sections 27013, 27133(f), and 27135, the Treasury shall deduct from pooled fund investment earnings the actual cost incurred for: banking services, custodial safekeeping charges, the pro-rata annual cost of the salaries including fringe benefits for the personnel in the Treasurer-Tax Collector's office engaged in the administration, investment, auditing, cashiering, accounting, reporting, remittance processing and depositing of public funds for investment, together with the related computer and office expenses associated with the performance of these functions. Costs are apportioned based upon average daily ending balances. Prior to gaining reimbursement for these costs, the Treasurer-Tax Collector shall annually prepare a proposed budget revenue estimate per Code Section 27013.

TREASURY OPERATIONS

Treasury operations are to be conducted in the most efficient manner to reduce costs and assure the full investment of funds. The Treasurer will maintain a policy regarding outgoing wires and other electronic transfers. Requests for outgoing transfers which do not arrive on a timely basis may be delayed. The County Treasurer may institute a fee schedule to more equitably allocate costs that would otherwise be spread to all depositors.

POLICY CRITERIA FOR AGENCIES SEEKING VOLUNTARY ENTRY

Should any agency solicit entry, the agency shall comply with the requirements of Section 53684 of the Code and adopt a resolution by the legislative or governing body of the local agency authorizing the deposit of excess funds into the County treasury for the purpose of investment by the County Treasurer. The resolution shall specify the amount of monies to be invested, the person authorized by the agency to coordinate the transaction, the anticipated time frame for deposits, the agency's willingness to be bound to the statutory 30-day written notice requirement for withdrawals, and acknowledging the Treasurer's ability to deduct pro-rata administrative charges permitted by Code Section 27013. Any solicitation for entry into the TPIF must have the County Treasurer's consent before the receipt of funds is authorized. The depositing entity will enter into a depository agreement with the Treasurer.

POLICY CRITERIA FOR VOLUNTARY PARTICIPANT WITHDRAWALS

With the Treasury being required to maintain a 40% liquidity position at all times during the calendar year, it is anticipated that sufficient funds will be on hand to immediately meet on demand all participant withdrawals for the full dollar amounts requested without having to make any allowance or pro-rata adjustment based on the current market value of the portfolio. In addition, any withdrawal by a local agency for the purpose of investing or depositing those funds outside the Pool shall have the prior written approval of the County Treasurer.

The Treasurer's approval of the withdrawal request shall be based on the availability of funds; the circumstances prompting the request; the dollar volume of similar requests; the prevailing condition of the financial markets, and, an assessment of the effect of the proposed withdrawal on the stability and predictability of the investments in the county treasury.

POLICY ON RECEIPT OF HONORARIA, GIFTS AND GRATUITIES

Neither the Treasurer-Tax Collector nor any member of his staff, shall accept any gift, gratuity or honoraria from financial advisors, brokers, dealers, bankers or other persons or firms conducting business with the County Treasurer which exceeds the limits established by the Fair Political Practices Commission (FPPC) and relevant portions of Code Section 27133. IOC members shall be subject to the limits included in the Board of Supervisors Policy B-21.

ETHICS & CONFLICTS OF INTEREST

Officers and staff members involved in the investment process shall refrain from any personal business activity that compromises the security and integrity of the County's investment program or impairs their ability to make impartial and prudent investment decisions. In addition, the County Treasurer-Tax Collector, Assistant Treasurer-Tax Collector, , Investment Manager, and Assistant Investment Manager are required to file annually the applicable financial disclosure statements as mandated by the FPPC and County policy.

INVESTMENTS MADE FROM DEBT ISSUANCE PROCEEDS

The proceeds of a borrowing may be specifically invested per Schedule I of this policy (with the exception of Collateralized Time Deposits and Local Agency Obligations) as well as competitively bid investments (see County of Riverside Office Of The Treasurer-Tax Collector Policy Governing Competitively Bid Investments, dated March 3, 2011).

No pooled fund investments made from the proceeds of a borrowing, the monies of which are deposited in the County Treasury, shall be invested for a period of time exceeding the maturity date of the borrowing. Nor shall any monies deposited with a bank trustee or fiscal agent for the ultimate purpose of retiring the borrowing be invested beyond the maturity date of the borrowing.

POLICY ADOPTION & AMENDMENTS

This policy statement will become effective following adoption by the Board of Supervisors, and, will remain in force until subsequently amended in writing by the Treasurer-Tax Collector and approved by the Board.

12/04/2018

Jon Christensen
County of Riverside
Treasurer-Tax Collector

SCHEDULE I

AUTHORIZED INVESTMENTS	DIVERSIFICATION (1)	PURCHASE RESTRICTIONS	MATURITY	CREDIT QUALITY (S&P/MOODY'S/FITCH)
U.S. Treasury notes, bills, bonds or other certificates of indebtedness	100%	N/A	Maximum 5 years	N/A
Notes, participations, or obligations issued by the agencies of the federal government	100%	N/A	Maximum 5 years	N/A
Bonds, notes, warrants or certificates of indebtedness issued by the state of CA, or local agencies, or, the County of Riverside. Registered treasury notes or bonds of any of the other 49 United States per Government Code Section 53601 (d)	15% maximum	See Schedule VI	Maximum 4 years	Long term "AA-, Aa3, AA-" or better
Notes, participations or obligations issued or fully guaranteed as to principal and interest by the International Bank for Reconstruction and Development, and the International Finance Corporation	20%	Max 10% per issuer	Maximum 4 years	Long term "AA, Aa, AA" or better
Local Agency Investment Fund (LAIF)	$50 million	Maximum $50 million per LAIF	Daily Liquidity	N/A
Commercial Paper (CP)	40% maximum	See Schedule VI	Maximum 270 days	Short term "A-1,P-1,F-1" or better
Local Agency Obligations (LAO)	2.5% maximum	Board of Supervisors approval required. Issued by pool depositors only	Maximum 3 years	Non-rated, if in the opinion of the Treasurer, considered to be of investment grade or better
CalTRUST Short Term Fund (CLTR)	1% maximum	Board of Supervisors approval required	Daily liquidity	NR / Portfolio managed pursuant to California Government Code § 53601 & 53635
Negotiable CD's (NCD'S) issued by national or state chartered banks or a licensed branch of a foreign bank	25% maximum	See Schedule VI	Maximum 1 year	Short term "A-1,P-1,F-1" or better
Collateralized Time Deposits (TCD)	2% maximum	See Schedule IV	Maximum 1 year	N/A
Repurchase Agreements (REPO) with 102% collateral restricted to U. S. Treasuries, agencies, agency mortgages, CP, BA's	40% max, 25% in term repo over 7 days. No more than 20% w/one dealer in term repo	Repurchase agreements to be on file	Maximum 45 days	Short Term "A-1, P-1, F-1" or better If "A-2, P-2, F2" then overnight only
Reverse Repurchase Agreements on U. S. Treasury & federal agency securities in portfolio	10% maximum	For temporary cash Flow needs only.	Max 60 days with prior approval of Board of Supervisors	N/A
Medium Term Notes (MTNO) or Corporate Notes	20% maximum	See Schedule VI	Maximum 3 years	"AA, Aa2, AA" minimum if under 1 year
Interest bearing Checking Account	20%	N/A	Daily Liquidity	Fully collateralized
Money Market Mutual Funds (MMF) that invest in eligible securities meeting requirements of California Government Code	20% maximum	See Schedule V	Daily liquidity	Long Term "AAA" (2 of 3 nationally recognized rating services)

(1) Whichever is greater.

AUTHORIZED BROKER/DEALERS
SCHEDULE II

The Treasurer is authorized to conduct investment security transactions with the broker/dealers which are designated by the Federal Reserve Bank as primary government dealers. Security transactions with firms, other than those appearing on this list, are prohibited.

1. Other authorized firms:

   Union Bank
   Piper Jaffray & Co.
   SunTrust Bank
   FTN Financial
   InCapital
   Raymond James & Associates, Inc.
   Williams Capital Group

2. Direct purchases from major commercial paper issuers, money market mutual funds, banker's acceptance issuers, negotiable CD issuers, or savings and loan are authorized.

3. Incidental purchases of less than $10 million may be made with other firms if in the opinion of the Treasurer, such transactions are deemed advantageous.

To ensure compliance with the County Treasurer's investment guidelines, each newly authorized primary government dealer and other authorized firms (as listed above in section 1, 2 and 3) will be supplied a complete copy of this Investment Policy document approved by the Board of Supervisors.

POLICY CRITERIA FOR SELECTION OF BROKER/DEALERS
SCHEDULE III

1. The County Treasurer has elected to limit security transactions as mentioned in Schedule II. Accordingly, the financial institution must confirm that they are a member of the Financial Industry Regulatory Authority (FINRA), registered with the Securities & Exchange Commission (SEC), and possess all other required licenses. The Treasurer is prohibited from the selection of any broker, brokerage, dealer, or securities firm that has, within any consecutive 48-month period following January 1, 1996, made a political contribution in an amount exceeding the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board, to the local treasurer, any member of the governing board of the local agency, or any candidate for those offices.

2. The County Treasurer's intent is to enter into long-term relationships. Therefore, the integrity of the firm and the personnel assigned to our account is of primary importance.

3. The firm must specify the types of securities it specializes in and will be made available for our account.

4. It is important that the firm provide related services that will enhance the account relationship which could include:
   (a) An active secondary market for its securities.
   (b) Internal credit research analysis on commercial paper, banker's acceptances and other securities it offers for sale.
   (c) Be willing to trade securities for our portfolio.
   (d) Be capable of providing market analysis, economic projections, and newsletters.
   (e) Provide market education on new investment products, security spread relationships, graphs, etc.

5. The firm must be willing to provide us annual financial statements.

6. The County Treasurer is prohibited from the establishment of a broker/dealer account for the purpose of holding the County's securities. All securities must be subject to delivery at the County's custodial bank.

7. Without exception, all transactions are to be conducted on a delivery versus payment (DVP) basis.

8. The broker/dealer must have been in operation for more than 5 years, and, if requested, the firm must be willing to provide us a list of local government clients or other reference, particularly those client relationships established within the State of California.

POLICY CRITERIA FOR COLLATERALIZED TIME DEPOSITS
SCHEDULE IV

Before the Treasury can place a time deposit with a local bank or savings and loan, the following criteria must be met:

1. The bank must provide us with an executed copy of the "Contract for Deposit of Moneys."

2. The interest rate on the Time Certificate of Deposit must be competitive with rates offered by other banks and savings and loans residing in Riverside County, as well as exceed that of U.S. Treasury Securities.

3. Investments less than the FDIC insurance limit will be sufficient without requiring any collateral to be pledged with the Federal Reserve to secure the public fund deposit.

4. Investments exceeding the FDIC insurance limit shall be fully collateralized by U.S. Treasury and Federal Agency securities having maturities five years or less. The County Treasury must receive written confirmation that these securities have been pledged in repayment of the time deposit. The securities pledged as collateral must have a current market value greater than the dollar amount of the deposit in keeping with the ratio requirements specified in Code Section 53652. Additionally, a statement of the collateral shall be provided on a monthly basis. A collateral waiver for the portion insured by the FDIC will be granted.

5. The County Treasurer must be given a current audited financial statement for the financial year just ended as well as the most recent quarterly statement of financial condition. The financial reports must both include a statement of financial condition as well as an income statement depicting current and prior year operations.

6. The County Treasurer will not place a public fund deposit for more than 10% of the present paid-in capital and surplus of the bank.

7. The County Treasurer must receive a certificate of deposit which specifically expresses the terms governing the transaction, deposit amount, issue date, maturity date, name of depositor, interest rate, interest payment terms (monthly, quarterly, etc).

8. All time certificates must have a maturity date not exceeding one year from the date of the deposit, with interest payments based upon the stated interest rate.

9. The County Treasurer must receive a letter from an officer of the bank at the time the initial deposit is made, that there is no known pending financial disclosure or public announcement of an adverse financial event involving the bank or savings and loan, nor is there any knowledge that a conflict of interest situation exists between any County official and an officer or employee of the bank.

10. Time deposits will only be made with banks and savings and loans having branch office locations within Riverside County.

POLICY CRITERIA FOR ENTERING INTO A MONEY MARKET FUND
SCHEDULE V

Shares of beneficial interest issued by diversified management companies, also known as mutual funds, invest in the securities and obligations authorized by Code Sections 53601.7(10). Approved mutual funds will be registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1 et. seq.) and shall meet the following criteria:

1. The fund must have a “AAA” ratings from two of the nationally recognized rating services: Moody’s, Fitch, Standard & Poor’s.

2. The fund’s prospectus cannot allow hedging strategies, options or futures.

3. The fund must provide a current prospectus before participation in the fund and provide copies of their portfolio reports and shall provide at least at month-end, a complete listing of securities within the fund’s portfolio.

POLICY CRITERIA
CORPORATE AND MUNICIPAL SECURITIES
SCHEDULE VI

Corporate Criteria. Money market securities will be first restricted by short-term ratings and then further restricted by long term credit ratings. The long term credit ratings, including the outlook of the parent company will be used. Money market securities consist of negotiable certificates of deposit (NCDs), bankers acceptances, and commercial paper. Medium term securities will be restricted by the long term ratings of the legal issuer. Concentration limit restrictions will make no distinction between medium term notes and money market securities.

No short term negative credit watch or long-term negative outlook by 2 of 3 nationally recognized rating services except for entities participating in government guaranteed programs. Credit Category 1 and Category 2 with negative credit watch or long-term negative outlook, by more than one nationally recognized rating service is permitted as Category 3 and Category 4 respectively.

Municipal Criteria. Minimum of A or A2 or A, underlying credit rating for selecting insured municipal securities and a maximum of 5% exposure to any one insurer (direct purchases and indirect commitments).

Liquidity Provider Restrictions. Maximum of 5% exposure to any one institution (direct purchases and indirect commitments).

Category	Short-Term Ratings	Long-Term Ratings	Restrictions
1	A-1+/P-1/F-1+ (SP-1+/MIG1/F-1+)	AAA/Aaa/AAA	**Corp.** Maximum of 5% per issuer with no more than 2% greater than 1 year final maturity and no more than 1% greater than 2 year final maturity. **Muni.** Maximum of 5% per issuer with no more than 2% greater than 13 month final maturity.
2	A-1+/P-1/F-1+ (SP-1+/MIG1/F-1)	AA+/Aa1/AA+, AA/Aa2/AA	**Corp.** Maximum of 4% per issuer with no more than 1% greater than 1 year final maturity. No more than 13 month final maturity. **Muni.** Maximum of 5% per issuer with no more than 1% greater than 13 month final maturity. For the State of California debt only maximum of 2% greater than 13 month final maturity.
3	A-1+/P-1/F-1+ (SP-1+/MIG1/F-1)	AA-/Aa3/AA-	**Corp.** Maximum of 3% per issuer with no more than 1.5% greater than 90 days. No more than 270 days final maturity. **Muni.** Maximum of 5% per issuer. No more than 13 month final maturity. For the State of California Debt only, maximum of 2% greater than 13 month final maturity.
4	A-1/P-1/F-1 (SP-1/MIG1/F-1)	A/A2/A or better.	**Corp.** No Asset Backed programs. Maximum of 2% per issuer with no more than 1% greater than 7 days. No more than 45 days maximum maturity. **Muni.** For the State of California Debt only, maximum of 3% with no more than 2% greater than 1 year final maturity.

Rating Agency Comparison Table

Short-Term Scale

S&P	**A-1+, A-1**
Moody's	**P-1**
Fitch	**F-1+, F-1**

Long-Term Scale

S&P	**AAA, AA+, AA, AA-, A+, A**
Moody's	**Aaa, Aa1, Aa2, Aa3, A1, A2**
Fitch	**AAA, AA+, AA, AA-, A+, A**

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APPENDIX G

BOOK-ENTRY ONLY SYSTEM

The information in this appendix has been provided by DTC for use in securities offering documents, and the District takes no responsibility for the accuracy or completeness thereof. The District cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute the Beneficial Owners either (a) payments of interest, principal or premium, if any, with respect to the Series A Bonds or (b) certificates representing ownership interest in or other confirmation of ownership interest in the Series A Bonds, or that they will so do on a timely basis or that DTC, DTC Direct Participants or DTC Indirect Participants will act in the manner described in this Official Statement.

1. The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Series A Bonds (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each maturity of the Securities, in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds $500 million, one certificate will be issued with respect to each $500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of

Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the District or the Paying Agent. Under such circumstances, in the

event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

10. The District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

11. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof.

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APPENDIX H

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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ASSURED GUARANTY MUNICIPAL

MUNICIPAL BOND INSURANCE POLICY

SPECIMEN

ISSUER: Policy No: -N

BONDS: $ in aggregate principal amount of

Effective Date:

Premium: $

ASSURED GUARANTY MUNICIPAL CORP. ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By ______________________________
Authorized Officer

A subsidiary of Assured Guaranty Municipal Holdings Inc.
1633 Broadway, New York, N.Y. 10019
(212) 974-0100