

HEMET UNIFIED SCHOOL DISTRICT

**2006 GENERAL OBLIGATION BONDS
FINANCIAL AND AGREED-UPON
PROCEDURES AUDIT**

JUNE 30, 2010

**HEMET UNIFIED SCHOOL DISTRICT
BUILDING FUND**

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JUNE 30, 2010**

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HEMET UNIFIED SCHOOL DISTRICT
BUILDING FUND

FINANCIAL STATEMENT REPORT

JUNE 30, 2010



INDEPENDENT AUDITORS' REPORT

Governing Board and Citizens' Oversight Committee
Hemet Unified School District
Hemet, California

We have audited the accompanying financial statements of the Proposition 39 Building Fund (Election 2006 Measure T) of the Hemet Unified School District (the District), as of June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the District's management. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Proposition 39 Building Fund (Election 2006 Measure T) and do not purport to, and do not, present fairly the financial position of the District as of June 30, 2010, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Proposition 39 Building Fund (Election 2006 Measure T) of the District at June 30, 2010, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
November 29, 2010

**HEMET UNIFIED SCHOOL DISTRICT
BUILDING FUND**

**BALANCE SHEET
JUNE 30, 2010**

ASSETS

Investments	\$ 22,286,370
Accounts receivable	63,049
Due from County School Facilities Fund	497,819
Total Assets	<u>\$ 22,847,238</u>

LIABILITIES AND FUND BALANCE

Liabilities:

Accounts payable	\$ 806,800
Due to Capital Facilities Fund	252
Total Liabilities	<u>807,052</u>

Fund Balance:

Unreserved	
Undesignated	<u>22,040,186</u>
Total Liabilities and Fund Balance	<u>\$ 22,847,238</u>

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

**HEMET UNIFIED SCHOOL DISTRICT
BUILDING FUND**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2010**

REVENUES

Other local revenues \$ 354,278

EXPENDITURES

Supplies and materials 148,276

Services 143,557

Capital outlay 11,575,772

Total Expenditures 11,867,605

Excess of Expenditures Under Revenues (11,513,327)

OTHER FINANCING SOURCES

Transfers in 3,456

Other sources 2,076

Total Other Financing Sources 5,532

**EXCESS OF EXPENDITURES AND OTHER
FINANCING SOURCES UNDER REVENUES** (11,507,795)

FUND BALANCE, BEGINNING OF YEAR 33,547,981

FUND BALANCE, END OF YEAR \$ 22,040,186

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

**HEMET UNIFIED SCHOOL DISTRICT
BUILDING FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Hemet Unified School District (the District) bond funds conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants. The Hemet Unified School District Building Fund accounts for financial transactions in accordance with the policies and procedures of the California School Accounting Manual.

Financial Reporting Entity

The audited financial statements includes only the Proposition 39 Building Fund (Election 2006 Measure T) of the Hemet Unified School District that was established to account for the expenditures of the general obligation bonds issued in March 2007 and March 2008. These financial statements are not intended to present fairly the financial position and the changes in financial position of the Hemet Unified School District in compliance with accounting principles generally accepted in the United States of America.

Fund Accounting

The operations of the Proposition 39 Building Fund (Election 2006 Measure T) are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Resources are allocated to and accounted for in the fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied.

Governmental funds are generally accounted for using the modified accrual basis of accounting. Their revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current fiscal period. Expenditures are recognized in the accounting period in which the liability is incurred (when goods are received or services rendered), except for unmatured interest on long-term obligations, which is recognized when due.

Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. The District's Governing Board adopts an operating budget no later than July 1 in accordance with State law. A public hearing must be conducted to receive comments prior to adoption. The District's Governing Board satisfied these requirements. The Board revises this budget during the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption. It is this final revised budget that is presented in these financial statements. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

**HEMET UNIFIED SCHOOL DISTRICT
BUILDING FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

Encumbrances

The District utilizes an encumbrance accounting system under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation. Encumbrances are liquidated when the commitments are paid and all outstanding encumbrances are liquidated at June 30 since they do not constitute expenditures or liabilities.

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 for the District. The District recognizes tax revenues when received.

Use of Estimates

The preparation of 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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 - INVESTMENTS

Summary of Investments

Investments as of June 30, 2010, consist of the following:

Investment in County Treasury	<u>\$ 22,286,370</u>
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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; collateralized mortgage obligations; and the Riverside County Investment Pool.

**HEMET UNIFIED SCHOOL DISTRICT
BUILDING FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

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
County Pooled Investment Funds	N/A	None	None

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Specific Identification

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

Investment Type	Fair Value	Weighted-Average Maturity in Days
Riverside County Investment Pool	\$ 22,333,171	372

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investment in the county pool is not required to be rated, nor has it been rated as of June 30, 2010.

**HEMET UNIFIED SCHOOL DISTRICT
BUILDING FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government Code. There were no investments in any one issuer that represent five percent (5%) or more of the total investments.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2010, consist of the following:

Interest	\$ 60,085
Other local sources	2,964
Total accounts receivable	<u>\$ 63,049</u>

NOTE 4 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2010, consists of the following:

Vendor payables	\$ 36,395
Construction	770,405
Total accounts payable	<u>\$ 806,800</u>

NOTE 5 - FUND BALANCE

Fund balance is composed of the following element:

Unreserved Undesignated	<u>\$ 22,040,186</u>
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**HEMET UNIFIED SCHOOL DISTRICT
BUILDING FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 6 - LONG-TERM OBLIGATIONS

Summary

Under the modified accrual basis of accounting, liabilities for long-term obligations are reported in the long-term obligations rather than the building or other funds. A schedule of changes in long-term obligations for the year ended June 30, 2010, is shown below:

	Balance June 30, 2009	Additions	Deductions	Balance June 30, 2010	Due in One Year
General obligation bonds	\$ 99,900,000	\$ -	\$ 1,475,000	\$ 98,425,000	\$ 1,635,000

General Obligation Bonds

2006 General Obligation Bonds, Series A & B

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds
				Outstanding July 1, 2009	Issued	Redeemed	Outstanding June 30, 2010
3/1/07	8/1/37	4 - 5.75%	\$ 60,000,000	\$ 59,900,000	\$ -	\$ 930,000	\$ 58,970,000
3/4/08	8/1/38	4.5 - 5.25%	40,000,000	40,000,000	-	545,000	39,455,000
				<u>\$ 99,900,000</u>	<u>\$ -</u>	<u>\$ 1,475,000</u>	<u>\$ 98,425,000</u>

Debt Service Requirements

The general obligation bonds Series A mature through 2038 as follows:

Year Ending June 30,	Principal	Interest	Total
2011	\$ 1,050,000	\$ 2,594,965	\$ 3,644,965
2012	1,140,000	2,551,165	3,691,165
2013	1,150,000	2,505,365	3,655,365
2014	1,220,000	2,457,965	3,677,965
2015	1,300,000	2,396,190	3,696,190
2016-2020	7,675,000	10,928,660	18,603,660
2021-2025	9,455,000	8,977,035	18,432,035
2026-2030	11,640,000	6,648,843	18,288,843
2031-2035	14,290,000	3,888,913	18,178,913
2036-2038	10,050,000	691,873	10,741,873
Total	<u>\$ 58,970,000</u>	<u>\$ 43,640,974</u>	<u>\$ 102,610,974</u>

**HEMET UNIFIED SCHOOL DISTRICT
BUILDING FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

The general obligation bonds Series B mature through 2039 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 585,000	\$ 1,979,600	\$ 2,564,600
2012	615,000	1,949,600	2,564,600
2013	650,000	1,917,975	2,567,975
2014	685,000	1,884,600	2,569,600
2015	720,000	1,851,275	2,571,275
2016-2020	4,250,000	8,658,156	12,908,156
2021-2025	5,560,000	7,415,594	12,975,594
2026-2030	7,255,000	5,817,244	13,072,244
2031-2035	9,485,000	3,719,925	13,204,925
2036-2039	9,650,000	1,011,019	10,661,019
Total	<u>\$ 39,455,000</u>	<u>\$ 36,204,988</u>	<u>\$ 75,659,988</u>

NOTE 7 - COMMITMENTS AND CONTINGENCIES

As of June 30, 2010, the Building Fund had the following commitments as defined by the bond documents:

Construction of New School Facilities

Hemet High School
Rancho Viejo Middle
Tahquitz High School - Phase 2

Upgrade and Major Repair of Existing Facilities

Hemet Elementary

HEMET UNIFIED SCHOOL DISTRICT

**2006 GENERAL OBLIGATION BONDS
AGREED-UPON PROCEDURES REPORT**

JUNE 30, 2010



INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

Governing Board and Citizens' Oversight Committee
Hemet Unified School District
Hemet, California

We have performed the agreed-upon procedures, which were agreed to by the management of the Hemet Unified School District (the District) and the Citizens' Oversight Committee, to review the expenditures of the issuance for the 2006 General Obligation Bond Series A and B funds for the period of July 1, 2009 through June 30, 2010, for the purpose of verifying if the use of the funds is within the scope of the published materials specifying the intended use of bond funds. We used election documents and the District resolutions as the guidance for the intended use of the funds. Management is responsible for Hemet Unified School District's compliance with those requirements. This engagement to perform agreed-upon procedures was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants and meets the compliance requirements to perform an "audit" as outlined in subparagraph (c) of paragraph (3) of subdivision (b) of Section 1 of Article XIII A of the California Constitution. The sufficiency of these procedures is solely the responsibility of those specified parties in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Financial Summary

- 1. The general obligation bond funds were authorized at an election of the registered voters of the District held on November 7, 2006. Bonds were authorized at an issuance of \$149,000,000 principal amounts for the purpose of financing the addition and modernization of school facilities. The bonds were issued in 2007 and 2008, and sold in the amount of \$60,000,000 and \$40,000,000, respectively.
2. Total expenditures from July 1, 2009, through June 30, 2010, were \$11,867,605.
3. An analysis of expenditures is as follows:

Expenditures

Table with 2 columns: Expenditure Category and Amount. Rows include Supplies and materials (\$148,276), Services (143,557), Capital outlay (11,575,772), and Total (\$11,867,605).

4. Available unspent funds from the bond as of June 30, 2010, are:

Balance as of July 1, 2009	\$ 33,547,981
Total revenues	359,810
Total expenditures	<u>(11,867,605)</u>
Amount Available	<u>\$ 22,040,186</u>

Agreed-Upon Procedures Performed

1. Verify that a separate Building Fund of the District has been established to account for the receipt of bond proceeds and expenditure of the funds for the year ended June 30, 2010.
2. Through examination of the bond issue settlement statement and accounting records, verify that the net proceeds from the sale of the General Obligation Bonds were recorded in the separate fund of the District and any amounts set aside for debt service were deposited into the related Bond Interest and Redemption Fund.
3. Select all expenditures over \$100,000 and at least 10 percent of the total expenditures for the year. Obtain supporting documentation (invoices, purchase orders, receiving documentation, contracts, etc.) and verify that the funds expended complied with the purpose that was specified to the registered voters of the District. Election materials, District resolutions, master plan, and other documents available at the District will be used to determine purpose of expenditures for this purpose.
4. For those items selected in item 3, verify that the District's normal purchasing (including quotation and bid requirements) and accounts payable policies and procedures were complied with.

Results of Procedures Performed

1. A separate Building Fund has been established and the general obligation bond fund revenues and expenditures were accounted for separately in the Building Fund of the District.
2. There were no net proceeds during 2009-2010.
3. Our review of the expenditures for the period of July 1, 2009 through June 30, 2010, did not reveal any items that were paid from the general obligation bond funds that did not comply with the purpose of the Bonds that were approved by the registered voters of the District on November 7, 2006.
4. Our review of the expenditures selected for testing in item 3 for the period of July 1, 2009 through June 30, 2010, did not reveal any items that were paid from the general obligation bond funds that did not comply with the District's normal purchasing (including quotation and bid requirements) and accounts payable policies and procedures.

We were not engaged to and did not; conduct an examination, the objective of which would be the expression of an opinion on compliance. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Hemet Unified School District and the Citizens' Oversight Committee, and is not intended to be and should not be used by anyone other than those specified parties.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California

November 29, 2010

HEMET UNIFIED SCHOOL DISTRICT

**SCHEDULE OF DISBURSEMENTS BY SITE
FOR THE PERIOD ENDING JUNE 30, 2010**

Acacia Middle	\$ 55,173
Cottonwood Elementary	1,257,840
Currie Ranch Elementary	350
Hemet Elementary	55,417
Hemet High	9,435,691
Idyllwild Elementary	2,910
Rancho Viejo Middle	196,241
Tahquitz High	504,878
Valle Vista Elementary	41,838
West Valley High	295,349
Whittier Elementary	21,918
Total	<u>\$ 11,867,605</u>