

HEMET UNIFIED SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

JUNE 30, 2009

HEMET UNIFIED SCHOOL DISTRICT

OF RIVERSIDE COUNTY

HEMET, CALIFORNIA

JUNE 30, 2009

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Greg Figgins	President	2010
Joe Wojcik	Vice President	2010
Marilyn Forst	Member	2012
Charlotte Jones	Member	2012
Phyllis L. Petri	Member	2010
William Sanborn	Member	2010
Lisa DeForest	Member	2012

ADMINISTRATION

Philip O. Pendley, Ed.D.	Superintendent
Mary Wulfsberg	Deputy Superintendent, Educational Services
LaFaye Platter	Assistant Superintendent, Human Resources
Richard M. Beck	Assistant Superintendent, Business Services
Caryl Miller	Assistant Superintendent, Student Support Services
Pam Buckhout	Director of Fiscal Services

HEMET UNIFIED SCHOOL DISTRICT

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FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Governing Board
Hemet Unified School District
Hemet, California

We have audited the accompanying financial statements of the governmental 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, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2008-09*, 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 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Hemet Unified School District, as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2009, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

As discussed in the Notes to the basic financial statements, the State of California continues to suffer the effects of a recessionary economy, which directly impacts the funding requirements of the State of California to the K-12 educational community.

The required supplementary information, such as management's discussion and analysis on pages 4 through 17 and General Fund budgetary comparison information on page 64, and Other Post Employment Benefits Schedule of Funding Progress on page 65, are not a required part of the basic financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information listed in the table of contents, including the schedule of expenditures of Federal awards which is required by U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, and the Combining Statements – Non-Major Governmental Funds are presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The unaudited supplementary information listed in the table of contents, including the General Fund Selected Financial Information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion.

Vavrinek, Trine, Day & Co., LLP
Rancho Cucamonga, California
December 8, 2009



Dr. Philip O. Pendley
Superintendent

Mary Wulfsberg
Deputy Superintendent

Richard M. Beck
Assistant Superintendent

LaFaye Platter
Assistant Superintendent

Dr. Caryl Miller
Assistant Superintendent

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Governing Board

Dr. Lisa DeForest
Dr. Gregg Figgins
Marilyn Forst
Charlotte Jones
Phyllis Petri
Bill Sanborn
Joe Wojcik

This section of Hemet Unified School District's (the District) (2008-2009) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2009, with comparative information from 2008. 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 *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.

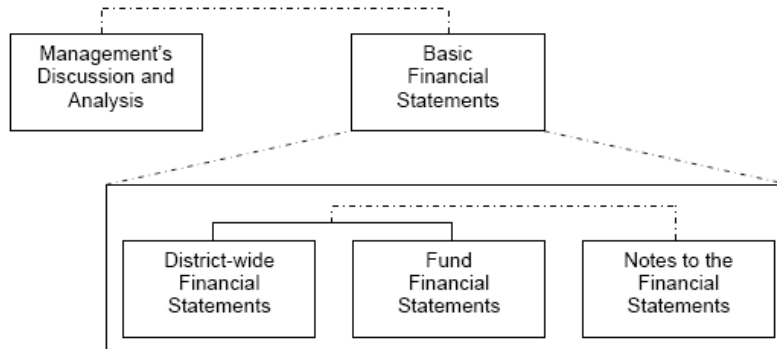
HEMET UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

Figure 1

Organization of Hemet Unified School District's Annual Financial Report



FINANCIAL HIGHLIGHTS OF THE PAST YEAR

- Total net assets increased by 2.50 percent or \$7.3 million to \$300 million for completion of Tahquitz High and Rancho Viejo Middle Schools.
- Revenues and other financing sources for all governmental funds were \$237.1 million, \$16.6 million less than expenses and other financing uses.
- The General Fund's ending balance increased by \$4.26 million from the prior year. The restricted portion of the General Fund's ending fund balance increased by \$60,000. The unrestricted General Fund increased \$4.2 million.
- The District re-issued its 2006 Certificates of Participation in 2008-09.
- The District did not issue any of the remaining \$49 million in authorized bonds from the 2006 voter-approved Measure T General Obligation bonds in 2008-09.
- The District's revenue limit funding was based on prior year ADA due to declining enrollment in 2008-09. Actual P-2 ADA for 2008-09 was reported at average daily attendance (ADA) was reported at 21,572. Revenue limit ADA was reported at 21,992.

HEMET UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2009

Figure 2 summarizes the District's Combined General Fund activities for the 2008-2009 fiscal year. As indicated in the Table, at June 30, 2009, the District's total revenues were \$7.65 million more than projected at Second Interim. Unanticipated increases were in all revenue categories and were due primarily to ARRA grants and delayed cuts to revenue limit funding. Total expenditures at year-end were less than projected due to district spending restrictions in the face of state revenue deficits and deferrals. The combined increase in revenues and decreased expenses resulted in a better than projected available ending balance at year-end.

Figure 2

Combined General Fund	2 nd Interim Projection	Audited Actuals	Difference
Total Revenues	\$188,870,702	\$196,519,618	\$ 7,648,916
Total Expenditures	198,998,918	191,783,863	(7,215,055)
Other Financial Activities	(633,120)	(468,365)	164,755
Net Increase(Decrease)	<u>(\$10,761,361)</u>	<u>\$ 4,267,390</u>	<u>\$15,028,726</u>
Available Fund Balance (a)	\$ -0-	\$ -0-	\$ -0-
(a) Available after 3% reserve for EU, legally restricted and other reserved balances			

REVENUE SUMMARY

Revenue limit funding generated \$127.2 million of the District's \$196.5 million General Fund revenues for the 2008-2009 fiscal year. Revenue limit as a percentage of total revenue, decreased slightly from 66.14 percent in the prior year to 64.28 percent in 2008-09. As shown in Figure 3, there was an decrease of 420.24 ADA from the prior year average daily attendance to 2008-09 P-2 ADA.

Figure 3

Grade Level	P-2 ADA	Funded ADA	Difference
Elementary	14,774.97	15,225.54	450.57
Secondary	6,796.66	6,766.24	(30.42)
County	<u>57.50</u>	<u>57.59</u>	0.09
Total K-12	<u>21,629.13</u>	<u>22,049.37</u>	<u>(420.24)</u>
Charter (HAAAT)	161.97	161.97	-0-
Adult Education	209.20	206.39	(2.81)

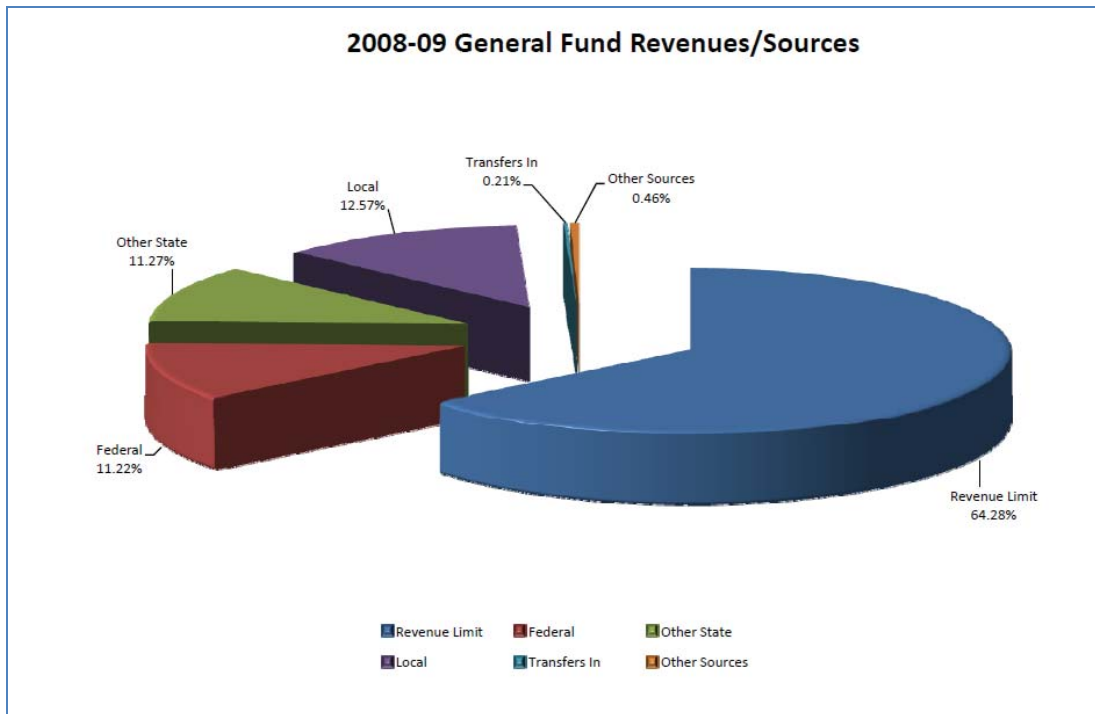
HEMET UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

Federal, Other State and Local Revenues

Combined General Fund Federal, other state, and local revenues at year-end were \$72.3 million or 12.22 percent more than District's second interim projection of \$64.4 million. Restricted revenue increases from second interim projections were attributed primarily to the receipt of American Recovery and Reinvestment Act (ARRA) State Fiscal Stabilization Funds (SFSF). Audit adjustments are being noted for a reduction in state revenue receipts totaling \$2.9 million in this report and are related to (See Note #18) passage of ABX4 3 which reverted unallocated balances in 51 state programs back to the State's General Fund for 2008-09. The funds for the 51 programs were subsequently re-appropriated in the 2009-2010 fiscal year.



EXPENDITURE SUMMARY

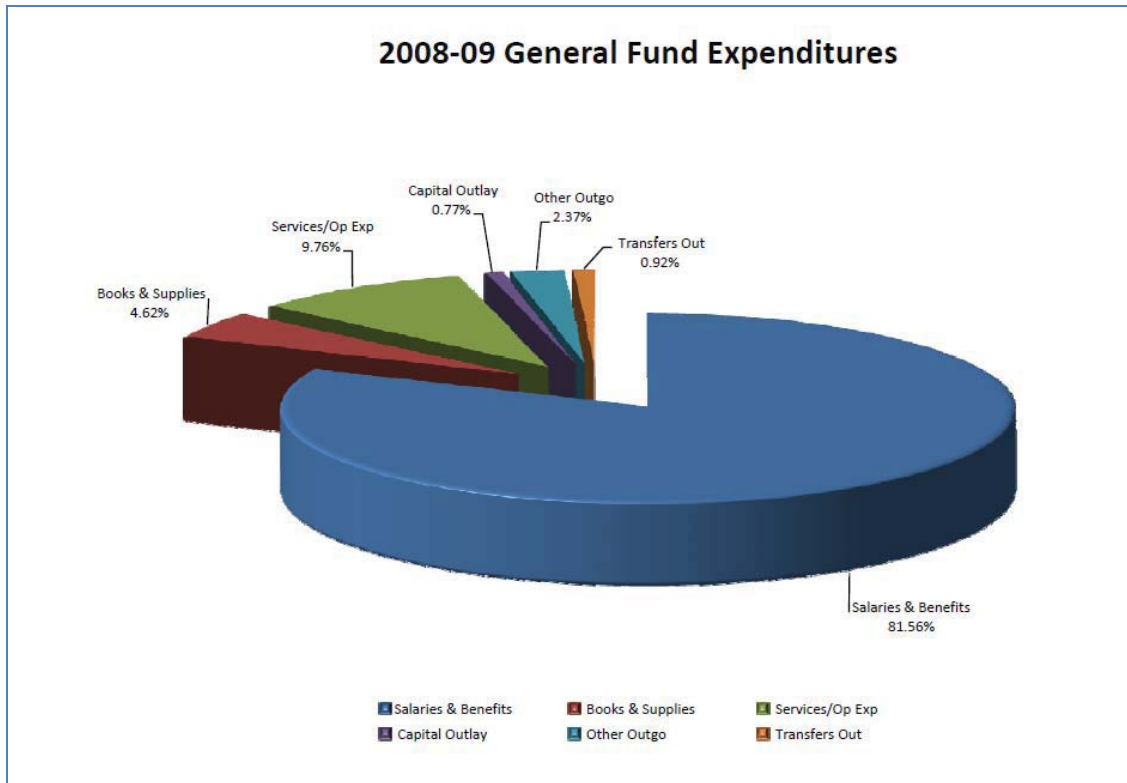
Salaries and Benefits

Salaries and benefits represent a significant percentage of all District expenditures. In 2008-2009 salaries and benefits accounted for 81.50 percent of all expenditures. Expenditures for salaries and benefits totaled \$157.9 million and were lower than Second Interim projections by just 0.30 percent. Salaries and benefits comprised 88.00 percent of unrestricted expenditures. The District believes that the success of its programs and support services result from the quality, experience, and training of its personnel. It continues to adopt operating budgets designed to protect core programs and retain personnel.

HEMET UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009



Operating Expenditures

Combined General Fund books and supplies expenses were \$6.0 million less than Second Interim projections. Much of the variance is represented by amounts awarded and budgeted for restricted program at Second Interim but which remained unspent at year-end and a spending freeze implemented by the district on all non-essential expenditures in preparation for mid-year cuts to state funding.

Services and Other Operating Expenses, which include consultants, maintenance contracts, legal fees, and utilities, ended the year at \$18.9 million, or approximately 5.20 percent less than the projected amounts budgeted in the District's Second Interim report. The district-wide spending freeze and energy conservation measures implemented late in the year account for much of variance from Second Interim projections in this category.

HEMET UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2009

DISTRICT-WIDE STATEMENTS

The Statement of Net Assets and the Statement of Activities

The *Statement of Net Assets* 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 assets* and changes in them. Net assets are the difference between assets and liabilities, one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net assets are one indicator of whether its *financial health* 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.

The *Statement of Net Assets* and the *Statement of Activities* include *governmental activities*. 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.

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.

HEMET UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

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 Assets* and the *Statement of Revenues, Expenses and Changes in Fund Net Assets*. 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. 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 Assets*. 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.

HEMET UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2009

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets

The District's net assets were \$299,346,430 for the fiscal year ended June 30, 2009. Restricted net assets are reported separately to show legal constraints from debt covenants, grantors, constitutional provisions, and enabling legislation that limit the governing board's ability to use those net assets for day-to-day operations. Our analysis below, in summary form, focuses on the net assets (Table 1) and change in net assets (Table 2) of the District's governmental activities.

Table 1

	Governmental Activities	
	2009	2008
Assets		
Current and other assets	\$ 114,337,130	\$ 130,993,306
Capital assets	437,897,137	417,306,660
Total Assets	<u>552,234,267</u>	<u>548,299,966</u>
Liabilities		
Current liabilities	15,260,980	21,036,745
Long-term obligations	237,626,857	235,255,102
Total Liabilities	<u>252,887,837</u>	<u>256,291,847</u>
Net Assets		
Invested in capital assets, net of related debt	255,806,011	260,308,325
Restricted	30,145,077	19,877,130
Unrestricted	13,395,342	11,822,664
Total Net Assets	<u>\$ 299,346,430</u>	<u>\$ 292,008,119</u>

HEMET UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2009

Changes in Net Assets

The results of this year's operations for the District as a whole are reported in the *Statement of Activities* on page 19. Table 2 takes the information from the Statement for the year.

Table 2

	Governmental Activities	
	2009	2008
Revenues		
Program Revenues:		
Charges for services	\$ 8,231,495	\$ 6,103,421
Operating grants and contributions	46,579,162	55,082,124
Capital grants and contributions	1,500,711	13,987,908
General Revenues:		
Federal and State aid	116,173,131	114,756,676
Property taxes	45,309,469	41,858,461
Other general revenues	12,476,099	11,671,138
Total Revenues	<u>230,270,067</u>	<u>243,459,728</u>
Expenses		
Instruction-related	151,429,016	156,993,334
Pupil services	27,178,599	26,401,122
Administration	14,229,661	16,290,402
Plant services	18,730,444	25,845,867
Ancillary	2,546,743	1,278,846
Other	8,817,293	13,470,301
Total Expenses	<u>222,931,756</u>	<u>240,279,872</u>
Change in Net Assets	<u>\$ 7,338,311</u>	<u>\$ 3,179,856</u>

HEMET UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

Governmental Activities

As reported in the *Statement of Activities* on page 19, the cost of all governmental activities in 2008-2009 was \$222,931,756. The amount that our taxpayers ultimately financed for these activities through local taxes was \$45,309,469. The remaining cost of \$8,231,495 was paid by those who benefited from the programs or by other governments and organizations who subsidized certain programs with \$48,079,873 in grants and contributions. The remaining "public benefit" portion of our governmental activities were paid with \$116,173,131 in Federal and State aid and \$12,476,099 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

	Total Cost of Services		Total Net Cost of Services	
	2009	2008	2009	2008
Instruction	\$ 127,659,333	\$ 133,963,704	\$ 101,720,360	\$ 88,013,163
Instruction-related activities	23,769,683	23,029,630	16,997,156	16,410,860
Pupil services	27,178,599	26,401,122	7,660,539	8,427,192
Administration	14,229,661	16,290,402	12,149,014	14,790,064
Plant services	18,730,444	25,845,867	18,296,564	24,070,202
Ancillary services	2,546,743	1,278,846	2,545,149	1,278,096
Other	8,817,293	13,470,301	7,251,606	12,116,842
Total	\$ 222,931,756	\$ 240,279,872	\$ 166,620,388	\$ 165,106,419

HEMET UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2009

THE DISTRICT'S FUNDS

Upon completion of the 2008-2009 fiscal year, the District's governmental funds reported a combined fund balance of \$89,274,992, a decrease of \$16,628,327 from 2007-2008 (Table 4). The fund balance in the District's Bond Interest and Redemption Fund increased above the amount necessary to qualify as a major fund on June 30, 2009, and the balance in this fund is excluded in the Non-Major Governmental Funds category.

Table 4

	Balances and Activity			June 30, 2009
	July 1, 2008	Revenues	Expenditures	
General Fund	\$ 21,687,938	\$ 201,974,817	\$ 197,707,427	\$ 25,955,328
Building Fund	57,066,531	1,096,706	24,615,256	33,547,981
Bond Interest and Redemption Fund	7,273,136	11,940,177	8,573,513	10,639,800
Non-Major Governmental Funds	19,875,714	22,109,276	22,853,107	19,131,883
Total	\$ 105,903,319	\$ 237,120,976	\$ 253,749,303	\$ 89,274,992

General Fund Budgetary Highlights

Over the course of the year, the District revised the 2008-2009 budget to address changes in revenues and expenditures that were unanticipated at the time the original budget was adopted in June 2008. Mid-year adjustments to the District's budget were approved by the Board of Education on March 4, 2009, in the District's Second Interim report. (A schedule showing the District's original and final budget amounts compared with actual expenses and revenues is provided in this annual financial report on page 64.

Federal and State revenues were significantly higher than projected at Second Interim due to receipt of ARRA funding and failure by the State Legislature to pass revenue limit reductions by the close of the fiscal year. Final total receipts of local revenues were slightly lower than Second Interim budget projections. The variance was the result of lower than anticipated interest, donations, and local grants.

Actual expenditures overall were less than anticipated, due primarily to unexpended restricted funds and a spending freeze on all non-essential expenditures.

HEMET UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2009

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2009, the District had \$437,897,137 in a broad range of capital assets (net of depreciation), including land, construction, buildings, and furniture and equipment. This amount represents a net increase (including additions, deductions and depreciation) of \$20,590,477 or 4.9 percent, over the prior year (Table 5).

Table 5

	Governmental Activities	
	2009	2008
Land	\$ 24,500,136	\$ 24,500,136
Construction in progress	165,419,109	142,141,316
Buildings and improvements	242,875,222	246,264,580
Equipment	5,102,670	4,400,628
Total	\$ 437,897,137	\$ 417,306,660

This year's additions totaling \$55 million included completed facilities projects, portable classrooms, and furniture and equipment. State School funding, General Obligation 2006, Certificates of Participation, and Community Facilities District (CFD) bonds were issued in prior years to fund these additions.

Many capital projects are planned for the 2009-2010 year including continuing work on the Hemet High renovation and improvement project and various middle and elementary school projects, and modernization projects. More detailed information about the District's capital assets are presented in Note 4 in these financial statements.

HEMET UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

Long-Term Obligations

At June 30, 2009, the District had \$213,571,010 in general obligation bonds and certificates of participation outstanding compared to \$216,759,941 on June 30, 2008, a decrease of 1.5 percent. Other obligations consisted of those items listed in Table 6 below.

Table 6

	Governmental Activities	
	2009	2008
General obligation bonds	\$ 154,847,287	\$ 156,685,798
Certificates of participation	58,723,723	60,074,143
Lease revenue bonds	4,525,392	4,699,870
Capital leases	4,797,975	6,728,409
Accumulated vacation	955,365	1,006,462
SERP	5,999,890	3,104,925
Claims liability	2,792,545	-
Net OPEB obligation	4,984,680	2,955,495
Total	\$ 237,626,857	\$ 235,255,102

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 9 of the financial statements.

HEMET UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

Table 7 lists the District's 2009-2010 budget assumptions. These assumptions were based on the most current information available to the District at the time the budget was adopted in June 2009. 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 2009-2010 budget, which includes site and department allocations for both staffing and operating budgets.

Table 7

2009-2010 Budget Assumptions

COLA	4.25%
COLA Deficit	17.967%
Enrollment	22,134
Enrollment Growth/(Decline)	(559)
ADA – Average Daily Attendance	20,984.10
ADA – Funded	21,561.63
ADA Percentage	93.5%
ADA Increase/(Decrease)	(577.53)
Salary Increase	0.00%
Step & Column % of Salaries	1.60%
Deferred/Routine Maintenance - % of Total Expenditures	2.76%
Federal Revenue Increase (excluding ARRA)	0.00%
New Schools	-0-
Reserve for Economic Uncertainties	3.00%

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 ASSETS JUNE 30, 2009

	Governmental Activities
	<u> </u>
ASSETS	
Deposits and investments	\$ 73,811,365
Restricted cash	4,257,550
Receivables	31,362,507
Prepaid expenses	1,465,104
Stores inventories	678,208
Deferred cost on issuance	2,762,396
Capital assets	
Land and construction in process	189,919,245
Other capital assets	318,935,367
Less: Accumulated depreciation	<u>(70,957,475)</u>
Total Capital Assets	<u>437,897,137</u>
TOTAL ASSETS	<u><u>552,234,267</u></u>
LIABILITIES	
Accounts payable	8,103,045
Interest payable	2,924,489
Deferred revenue	2,754,769
Claims liabilities	1,478,677
Long-term obligations	
Current portion of long-term obligations	7,050,812
Noncurrent portion of long-term obligations	<u>230,576,045</u>
Total Long-Term Obligations	<u>237,626,857</u>
TOTAL LIABILITIES	<u><u>252,887,837</u></u>
NET ASSETS	
Invested in capital assets, net of related debt	255,806,011
Restricted for:	
Debt service	11,921,115
Capital projects	4,372,036
Educational programs	9,271,296
Other activities	4,580,630
Unrestricted	<u>13,395,342</u>
TOTAL NET ASSETS	<u><u>\$ 299,346,430</u></u>

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

HEMET UNIFIED SCHOOL DISTRICT

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009**

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction	\$127,659,333	\$ 430,527	\$ 24,007,735	\$ 1,500,711	\$ (101,720,360)
Instruction-related activities:					
Supervision of instruction	7,637,441	22,776	6,098,972	-	(1,515,693)
Instructional library, media and technology	1,602,406	1,233	184,722	-	(1,416,451)
School site administration	14,529,836	3,753	461,071	-	(14,065,012)
Pupil services:					
Home-to-school transportation	8,277,763	5,061,490	1,960,494	-	(1,255,779)
Food services	9,126,107	1,462,226	7,795,714	-	131,833
All other pupil services	9,774,729	97,284	3,140,852	-	(6,536,593)
Administration:					
Data processing	2,186,392	1,779	1,658	-	(2,182,955)
All other administration	12,043,269	367,002	1,710,208	-	(9,966,059)
Plant services	18,730,444	77,340	356,540	-	(18,296,564)
Ancillary services	2,546,743	302	1,292	-	(2,545,149)
Community services	90,501	-	-	-	(90,501)
Enterprise services	1,652	-	-	-	(1,652)
Interest on long-term obligations	8,537,546	-	-	-	(8,537,546)
Other outgo	187,594	705,783	859,904	-	1,378,093
Total Governmental Activities	\$222,931,756	\$ 8,231,495	\$ 46,579,162	\$ 1,500,711	(166,620,388)
General revenues and subventions:					
					30,059,357
					11,779,092
					3,471,020
					116,173,131
					1,976,352
					809,821
					9,689,926
					<u>173,958,699</u>
					Change in Net Assets
					7,338,311
					<u>Net Assets - Beginning</u>
					292,008,119
					<u>Net Assets - Ending</u>
					<u>\$ 299,346,430</u>

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

HEMET UNIFIED SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2009**

	General Fund	Building Fund
ASSETS		
Deposits and investments	\$ 2,099,853	\$ 35,898,086
Restricted cash	-	-
Receivables	30,213,264	148,146
Due from other funds	1,374,104	1,458
Prepaid expenditures	1,465,104	-
Stores inventories	313,312	-
Total Assets	\$ 35,465,637	\$ 36,047,690
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	\$ 5,138,513	\$ 2,497,606
Due to other funds	1,617,027	2,103
Deferred revenue	2,754,769	-
Total Liabilities	9,510,309	2,499,709
Fund Balances:		
Reserved for:		
Revolving cash	25,000	-
Stores inventories	313,312	-
Prepaid expenditures	1,465,104	-
Legally restricted balances	9,271,296	-
Unreserved:		
Designated	9,097,376	-
Undesignated, reported in:		
General Fund	5,783,240	-
Special revenue funds	-	-
Debt service funds	-	-
Capital projects funds	-	33,547,981
Total Fund Balance	25,955,328	33,547,981
Total Liabilities and Fund Balances	\$ 35,465,637	\$ 36,047,690

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

Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ 10,639,800	\$ 13,734,492	\$ 62,372,231
-	4,257,550	4,257,550
-	909,434	31,270,844
-	1,853,464	3,229,026
-	-	1,465,104
-	364,896	678,208
<u>\$ 10,639,800</u>	<u>\$ 21,119,836</u>	<u>\$ 103,272,963</u>
\$ -	\$ 364,880	\$ 8,000,999
-	1,623,073	3,242,203
-	-	2,754,769
<u>-</u>	<u>1,987,953</u>	<u>13,997,971</u>
-	-	25,000
-	364,896	678,208
-	-	1,465,104
-	-	9,271,296
-	2,128,692	11,226,068
-	-	5,783,240
-	2,204,943	2,204,943
10,639,800	4,205,804	14,845,604
-	10,227,548	43,775,529
<u>10,639,800</u>	<u>19,131,883</u>	<u>89,274,992</u>
<u>\$ 10,639,800</u>	<u>\$ 21,119,836</u>	<u>\$ 103,272,963</u>

HEMET UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2009**

Total Fund Balance - Governmental Funds	\$ 89,274,992
Amounts Reported for Governmental Activities in the Statement of Net Assets 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:	\$ 508,854,612
Accumulated depreciation is:	<u>(70,957,475)</u>
Net Capital Assets	437,897,137
Expenditures relating to issuance of debt were recognized in modified accrual basis, but should not be recognized in accrual basis. Under accrual basis, these expenditures are capitalized and amortized over the life of the debt as an adjustment to interest expense.	
	2,762,396
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.	
	(2,924,489)
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:	
	7,170,706
Long-term obligations, including general obligation bonds, certificates of participation, capital lease obligations, compensated absences, and postemployment benefits are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.	
Long-term obligations at year-end consist of:	
General obligation bonds	153,105,000
Premium on issuance, net of amortization	1,742,287
Certificates of participation	58,858,005
Discount on issuance, net of amortization	(134,282)
Lease revenue bonds	4,535,000
Discount on issuance, net of amortization	(9,608)
Capital lease obligations	4,797,975
Compensated absences - accumulated vacation	955,365
Supplemental early retirement program	5,999,890
Net OPEB obligation	<u>4,984,680</u>
Total Long-Term Obligations	(234,834,312)
Total Net Assets - Governmental Activities	<u><u>\$ 299,346,430</u></u>

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 BALANCE
FOR THE YEAR ENDED JUNE 30, 2009**

	General Fund	Building Fund
REVENUES		
Revenue limit sources	\$ 127,172,355	\$ -
Federal sources	22,190,296	-
Other State sources	27,570,381	-
Other local sources	23,719,589	1,096,706
Total Revenues	200,652,621	1,096,706
EXPENDITURES		
Current		
Instruction	119,234,050	-
Instruction-related activities:		
Supervision of instruction	7,417,203	-
Instructional library, media and technology	1,600,146	-
School site administration	13,772,206	-
Pupil services:		
Home-to-school transportation	8,194,547	-
Food services	30,615	-
All other pupil services	9,858,453	-
Administration:		
Data processing	2,178,240	-
All other administration	7,889,018	-
Plant services	17,616,653	959
Facility acquisition and construction	109,216	24,614,297
Ancillary services	2,544,571	-
Community services	90,501	-
Other outgo	6,638	-
Debt service		
Principal	794,133	-
Interest and other	1,005,844	-
Total Expenditures	192,342,034	24,615,256
Excess (Deficiency) of Revenues Over Expenditures	8,310,587	(23,518,550)
OTHER FINANCING SOURCE (USES)		
Transfers in	419,098	-
Other sources	903,098	-
Transfers out	(5,365,393)	-
Net Financing Sources (Uses)	(4,043,197)	-
NET CHANGE IN FUND BALANCES	4,267,390	(23,518,550)
Fund Balance - Beginning	21,687,938	57,066,531
Fund Balance - Ending	\$ 25,955,328	\$ 33,547,981

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

Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ 1,071,174	\$ 128,243,529
-	8,117,603	30,307,899
182,603	3,814,676	31,567,660
11,743,183	3,372,720	39,932,198
<u>11,925,786</u>	<u>16,376,173</u>	<u>230,051,286</u>
-	1,950,962	121,185,012
-	211,392	7,628,595
-	3,128	1,603,274
-	510,928	14,283,134
-	-	8,194,547
-	8,700,928	8,731,543
-	33,195	9,891,648
-	390	2,178,630
-	833,917	8,722,935
-	1,461,466	19,079,078
-	3,323,638	28,047,151
-	-	2,544,571
-	-	90,501
-	180,956	187,594
1,775,000	1,669,307	4,238,440
6,798,513	3,186,092	10,990,449
<u>8,573,513</u>	<u>22,066,299</u>	<u>247,597,102</u>
<u>3,352,273</u>	<u>(5,690,126)</u>	<u>(17,545,816)</u>
-	5,733,103	6,152,201
14,391	-	917,489
-	(786,808)	(6,152,201)
<u>14,391</u>	<u>4,946,295</u>	<u>917,489</u>
3,366,664	(743,831)	(16,628,327)
7,273,136	19,875,714	105,903,319
<u>\$ 10,639,800</u>	<u>\$ 19,131,883</u>	<u>\$ 89,274,992</u>

HEMET UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE DISTRICT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2009

Total Net Change in Fund Balances - Governmental Funds		\$(16,628,327)
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 Assets and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities.		
This is the amount by which capital outlays exceeds depreciation in the period.		
Capital outlays	\$28,600,887	
Depreciation expense	<u>(7,985,339)</u>	
Net Expense Adjustment		20,615,548
Loss on disposal of capital assets is reported in the government-wide financial statement of net assets, but is not recorded in the governmental funds.		(25,071)
Some of the capital assets acquired this year were financed with capital leases. The amount financed by the leases is reported in the governmental funds as a source of financing. On the other hand, the capital leases are not revenues in the statement of activities, but rather constitute long-term obligations in the Statement of Net Assets.		(903,098)
In the Statement of Activities, certain operating expenses - compensated absences (vacations) and special termination benefits (early retirement) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, special termination benefits used was less than amounts earned by \$2,894,965. Vacation used was more than amounts earned by \$51,097.		(2,843,868)
In the Statement of Activities Other Postemployment Benefit Obligations (OPEB) are measured by an actuarially determined Annual Required Contribution (ARC). In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, amounts contributed toward the OPEB obligation were less than the ARC by \$2,029,185.		(2,029,185)
Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term obligations in the Statement of Net Assets and does not affect the statement of activities:		
General obligation bonds		1,775,000
Certificates of participation		1,355,665
Lease revenue bonds		175,000
Capital lease obligations		2,833,532

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

HEMET UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE DISTRICT-WIDE STATEMENT OF ACTIVITIES (Continued) FOR THE YEAR ENDED JUNE 30, 2009

Governmental funds report the effect of premiums, discounts, and issuance costs 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	\$ 63,511	
Discount on issuance for certificates of participation	(5,245)	
Discount on issuance for lease revenue bonds	(522)	
Cost of issuance for general obligation bonds	(50,037)	
Cost of issuance for certificates of participation	(49,181)	
Cost of issuance for lease revenue bonds	(13,003)	
Deferred amount on refunding	(2,613)	
Combined Adjustment	\$ (57,090)	

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.

609,236

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.

2,460,969

Change in Net Assets of Governmental Activities

\$ 7,338,311

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

HEMET UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUND
STATEMENT OF NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2009**

	Governmental Activities
	Internal Service Fund
ASSETS	
Current Assets	
Deposits and investments	\$ 11,439,134
Receivables	91,663
Due from other funds	14,297
Total Assets	<u>11,545,094</u>
LIABILITIES	
Current Liabilities	
Accounts payable	102,046
Due to other funds	1,120
Claims liabilities	1,478,677
Total Current Liabilities	<u>1,581,843</u>
Noncurrent Liabilities	
Claims liabilities	2,792,545
Total Liabilities	<u>4,374,388</u>
NET ASSETS	
Unrestricted	7,170,706
Total Net Assets	<u>\$ 7,170,706</u>

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 ASSETS
FOR THE YEAR ENDED JUNE 30, 2009**

	Governmental Activities Internal Service Fund
OPERATING REVENUES	
Charges to other funds and miscellaneous revenues	\$ 17,337,547
OPERATING EXPENSES	
Professional and contract services	15,099,909
Supplies and materials	6,130
Total Operating Expenses	<u>15,106,039</u>
Operating Income	<u>2,231,508</u>
NONOPERATING REVENUES	
Interest income	<u>229,461</u>
Change in Net Assets	2,460,969
Total Net Assets - Beginning	<u>4,709,737</u>
Total Net Assets - Ending	<u><u>\$ 7,170,706</u></u>

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

HEMET UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2009**

	Governmental Activities
	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from customers	\$ 17,313,597
Cash payments to suppliers for goods and services	(6,130)
Other operating cash payments	(15,491,734)
Net Cash Provided by Operating Activities	<u>1,815,733</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>229,461</u>
Net Cash Provided by Investing Activities	<u>229,461</u>
Net Increase in Cash and Cash Equivalents	2,045,194
Cash and Cash Equivalents - Beginning	9,393,940
Cash and Cash Equivalents - Ending	<u><u>\$ 11,439,134</u></u>
RECONCILIATION OF OPERATING GAIN TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating gain	\$ 2,231,508
Changes in assets and liabilities:	
Receivables	(18,888)
Due from other funds	(5,062)
Accounts payable	74,920
Due to other funds	255
Claims liabilities	(467,000)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 1,815,733</u></u>

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

HEMET UNIFIED SCHOOL DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2009**

	Agency Funds		
	Debt Service		
	Fund for Special Tax Bonds	Associated Student Bodies	Total Agency Funds
ASSETS			
Deposits and investments	\$ 5,383,129	\$ 1,106,709	\$ 6,489,838
Receivables	-	510	510
Stores inventories	-	10,468	10,468
Total Assets	\$ 5,383,129	\$ 1,117,687	\$ 6,500,816
LIABILITIES			
Accounts payable	\$ -	\$ 10,872	\$ 10,872
Due to student groups	-	1,106,815	1,106,815
Due to bond holders	5,383,129	-	5,383,129
Total Liabilities	\$ 5,383,129	\$ 1,117,687	\$ 6,500,816

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

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

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 fifteen elementary schools, four middle schools, three high schools, one continuation school, two alternative independent study schools, one community day school, an adult school, and one charter school.

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, 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 is presented in the financial statements as the Capital Projects for Blended Component Units Fund and the Debt Service for Blended Component Units Fund. 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 Assets* 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 Hemet Academy for Applied Academics and Technology 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.

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

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:

- Alliance of Schools Cooperative Insurance Programs (ASCIP)

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 a district. All transactions except those required or permitted by law to be in another fund are accounted for in this fund.

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.

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

Non-Major Governmental Funds

Special Revenue Funds The Special Revenue funds are established to account for the proceeds from specific revenue sources (other than trusts or for major capital projects) that are restricted to the financing of particular activities:

Charter Schools Fund The Charter Schools Fund is used by the District to account separately for the 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 adult education programs and is to be expended for adult education purposes only.

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

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 State apportionments and the District's contributions for deferred maintenance purposes (*Education Code* Sections 17582-17587) and for items of maintenance approved by the State Allocation Board.

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

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

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

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

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, long-term obligations principal, interest, and related costs. The District maintains the following debt service funds:

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Debt Service for Blended Component Units Fund The Debt Service for Blended Component Units Fund 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 fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. The District applies all GASB pronouncements, as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Proprietary funds are classified as enterprise or internal service. The District has the following proprietary fund:

Internal Service Fund Internal service funds may be used to account for any activity for which goods or services are 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 fund reporting focuses on net assets and changes in net assets. 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. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency funds account for the accumulation of resources for the payment of the principal and interest on the Special Tax Bonds issued by the Community Facilities Districts as well as the student body activities (ASB).

Basis of Accounting - Measurement Focus

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

The government-wide financial *Statement of Activities* presents a comparison between direct expenses and program revenues for each segment of the District and for each governmental program, and exclude fiduciary activity. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the *Statement of Activities*. 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 assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other activities result from special revenue funds and the restrictions on their net asset use.

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Fund Financial Statements Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. 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 balance reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide financial statements and the statements for the governmental funds on a modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

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 Assets*. The statement of changes in fund net assets 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.

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Deferred Revenue Deferred 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 deferred revenue is removed from the combined balance sheet and revenue is recognized.

Certain grants received that have not met eligibility requirements are recorded as deferred revenue. On the governmental fund financial statements, receivables that will not be collected within the available period are also recorded as deferred 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, 2009, 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.

Restricted Assets

Restricted assets arise when restrictions on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation.

Prepaid Expenditures

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

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.

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

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 Assets*. 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

Accumulated unpaid vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide *Statement of Net Assets*. 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.

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

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.

Deferred 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 Assets*. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method.

Fund Balance Reserves and Designations

The District reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund balance, which is available for appropriation in future periods. Fund balance reserves have been established for revolving cash accounts, stores inventories, and legally restricted grants and entitlements.

Designations of fund balances consist of that portion of the fund balance that has been designated (set aside) by the governing board to provide for specific purposes or uses. Fund balance designations have been established for economic uncertainties, and other specified purposes.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt 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, 2009. Net assets are 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 assets are available. The government-wide financial statements reports \$30,145,077 of restricted net assets.

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 is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

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 nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements. Interfund transfers are eliminated in the governmental and business-type activities columns of the *Statement of Activities*, except for the net residual amounts transferred between governmental and business-type activities.

Estimates

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

Budgetary Data

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

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for. For purposes of the budget, on-behalf payments have been included as revenue and expenditures as required under generally accepted accounting principles.

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.

New Accounting Pronouncements

In March 2009, the GASB issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The requirements of this Statement are effective for the financial statements for periods beginning after June 15, 2010. Early implementation is encouraged.

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JUNE 30, 2009

In April 2009, the GASB issued GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to incorporate the hierarchy of generally accepted accounting principles (GAAP) for State and local governments into the GASB authoritative literature. The "GAAP hierarchy" consists of the sources of accounting principles used in the preparation of financial statements of State and local governmental entities that are presented in conformity with GAAP, and the framework for selecting those principles. GASB Statement No. 55 is effective immediately.

In April 2009, the GASB issued GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statements on Auditing Standards. This Statement addresses three issues not included in the authoritative literature that establishes accounting principles – related party transactions, going concern considerations, and subsequent events. The presentation of principles used in the preparation of financial statements is more appropriately included in accounting and financial reporting standards rather than in the auditing literature. GASB Statement No. 56 is effective immediately.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2009, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 73,811,365
Restricted cash	4,257,550
Fiduciary funds	6,489,838
Total Deposits and Investments	<u>\$ 84,558,753</u>

Deposits and investments as of June 30, 2009, consist of the following:

Cash on hand and in banks	\$ 15,845,562
Cash in revolving	25,000
Investments	68,688,191
Total Deposits and Investments	<u>\$ 84,558,753</u>

Policies and Practices

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

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JUNE 30, 2009

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:

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

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 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.

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

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	Fair Value	Maturity Date
Money Market Mutual Funds	\$ 12,741,368	7/1/2009
Riverside County Investment Pool	67,418,113	387*
AIG Matched Funding Corp. Investment Agreement	1,567,784	9/28/2032
Total	\$ 81,727,265	

* Weighted average days to maturity.

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. As of the year-end, it reflected a AAA rating. The Money Market Mutual Fund reflected a AAA rating. The Investment Agreements were not rated.

Investment Type	Minimum Legal Rating	Rating as of June 30, 2009	Fair Value
Money Market Mutual Funds	AAA	AAA	\$ 12,741,368
Riverside County Investment Pool	Not Required	AAA	67,418,113
AIG Matched Funding Corp. Investment Agreement	Not Required	Not Required	1,567,784
Total			\$ 81,727,265

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, 2009, the District's bank balance of \$3,691,037 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

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**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 3 - RECEIVABLES

Receivables at June 30, 2009, consisted of intergovernmental grants, entitlements, interest, and other local sources. All receivables are considered collectible in full.

	General Fund	Building Fund	Non-Major Governmental Funds
Federal Government			
Categorical aid	\$ 6,366,038	\$ -	\$ 458,849
State Government			
Apportionment	14,331,160	-	216,318
Categorical aid	2,788,682	-	138,004
Lottery	1,433,794	-	4,959
Local Government			
Interest	72,175	143,332	32,810
Other Local Sources	5,221,415	4,814	58,494
Total	<u>\$ 30,213,264</u>	<u>\$ 148,146</u>	<u>\$ 909,434</u>

	Internal Service Fund	Total	Agency Fund
Federal Government			
Categorical aid	\$ -	\$ 6,824,887	\$ -
State Government			
Apportionment	-	14,547,478	-
Categorical aid	-	2,926,686	-
Lottery	-	1,438,753	-
Local Government			
Interest	42,144	290,461	-
Other Local Sources	49,519	5,334,242	510
Total	<u>\$ 91,663</u>	<u>\$ 31,362,507</u>	<u>\$ 510</u>

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2009, was as follows:

	Balance July 1, 2008	Additions	Deductions	Balance June 30, 2009
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 24,500,136	\$ -	\$ -	\$ 24,500,136
Construction in progress	142,141,316	25,064,646	1,786,853	165,419,109
Total Capital Assets Not Being Depreciated	<u>166,641,452</u>	<u>25,064,646</u>	<u>1,786,853</u>	<u>189,919,245</u>
Capital Assets Being Depreciated				
Buildings and improvements	301,514,744	3,810,604	56,000	305,269,348
Furniture and equipment	12,153,529	1,512,490	-	13,666,019
Total Capital Assets Being Depreciated	<u>313,668,273</u>	<u>5,323,094</u>	<u>56,000</u>	<u>318,935,367</u>
Total Capital Assets	<u>480,309,725</u>	<u>30,387,740</u>	<u>1,842,853</u>	<u>508,854,612</u>
Less Accumulated Depreciation				
Buildings and improvements	55,250,164	7,174,891	30,929	62,394,126
Furniture and equipment	7,752,901	810,448	-	8,563,349
Total Accumulated Depreciation	<u>63,003,065</u>	<u>7,985,339</u>	<u>30,929</u>	<u>70,957,475</u>
Governmental Activities Capital Assets, Net	<u>\$ 417,306,660</u>	<u>\$ 22,402,401</u>	<u>\$ 1,811,924</u>	<u>\$ 437,897,137</u>

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

Governmental Activities	
Instruction	\$ 6,595,879
School site administration	215,605
Food services	375,311
All other administration	471,135
Plant services	327,409
Total Depreciation Expenses Governmental Activities	<u>\$ 7,985,339</u>

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

NOTE 5 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances at June 30, 2009, between major and non-major governmental funds, and internal service funds are as follows:

Due To	Due From				Total
	General Fund	Building Fund	Non-Major Governmental Funds	Internal Service Fund	
General Fund	\$ -	\$ 2,103	\$ 1,370,881	\$ 1,120	\$ 1,374,104
Building Fund	1,458	-	-	-	1,458
Non-Major Governmental Funds	1,601,718	-	251,746	-	1,853,464
Internal Service Fund	13,851	-	446	-	14,297
Total	<u>\$ 1,617,027</u>	<u>\$ 2,103</u>	<u>\$ 1,623,073</u>	<u>\$ 1,120</u>	<u>\$ 3,243,323</u>

The balance of \$401,633 is due to the General Fund from the Cafeteria (Non-Major) Fund for indirect costs.

The balance of \$518,749 is due to the General Fund from the Cafeteria (Non-Major) Fund for payroll expenses.

The balance of \$300,000 is due to the General Fund from the Special Reserve (Non-Major) Fund for Other than Capital Outlay Projects for reserve.

The balance of \$200,000 is due to the Capital Facilities (Non-Major) Fund from the Child Development (Non-Major) Fund for cash flow purposes.

The balance of \$1,500,000 is due to Capital Facilities (Non-Major) Fund from the General Fund for cash flow purposes.

The balance of \$119,098 is due to the General Fund from the Charter Schools (Non-Major) Fund for special education program expenses.

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.

HEMET UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

Operating Transfers

Interfund transfers for the year ended June 30, 2009, consisted of the following:

Transfer to	Transfer From		Total
	General Fund	Non-Major Governmental Funds	
General Fund	\$ -	\$ 419,098	\$ 419,098
Non-Major Governmental Funds	5,365,393	367,710	5,733,103
Total	<u>\$ 5,365,393</u>	<u>\$ 786,808</u>	<u>\$ 6,152,201</u>

The General Fund transferred to the Charter School Fund for carryover of vocational education.	\$ 206
The General Fund transferred to the Adult Education Fund for tier III adult education apportionment.	90,104
The General Fund transferred to the Deferred Maintenance Fund for Tier III deferred maintenance apportionment and additional contribution.	1,698,348
The General Fund transferred to the Debt Service for Blended Component Units Fund for debt service payments.	3,576,735
The Charter School Fund transferred to the General Fund for unused special education funding.	119,098
The Special Reserve Fund for Other than Capital Outlay Projects transferred to the General Fund for new school start up.	300,000
The Captial Projects for Blendend Component Units Fund transferred to the General Fund for reimbursement of construction costs.	315,964
The Debt Service for Blended Component Units Fund for debt service payments transferred to the Capital Facilities Fund for reimbursement of costs.	51,746
Total	<u>\$ 6,152,201</u>

HEMET UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2009, consisted of the following:

	General Fund	Building Fund	Non-Major Governmental Funds	Internal Service Fund	Total	Agency Fund
Vendor payables	\$ 1,688,701	\$ 3,515	\$ 221,940	\$ 102,046	\$ 2,016,202	\$ 10,872
State apportionment	2,963,839	-	37,365	-	3,001,204	-
Salaries and benefits	485,973	-	18,423	-	504,396	-
Construction	-	2,494,091	87,152	-	2,581,243	-
Total	<u>\$ 5,138,513</u>	<u>\$ 2,497,606</u>	<u>\$ 364,880</u>	<u>\$ 102,046</u>	<u>\$ 8,103,045</u>	<u>\$ 10,872</u>

NOTE 7 - DEFERRED REVENUE

Deferred revenue at June 30, 2009, consists of the following:

	General Fund
Federal financial assistance	\$ 2,694,757
State categorical aid	46,135
Other local	13,877
Total	<u>\$ 2,754,769</u>

NOTE 8 - TAX AND REVENUE ANTICIPATION NOTES (TRANS)

On July 1, 2008, the District issued \$6,930,000 of Tax and Revenue Anticipation Notes bearing interest at 1.65 percent. The notes were issued to supplement cash flows. By May 2009, 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.

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

A schedule of changes in long-term obligations for the year ended June 30, 2009, is shown below:

	Balance July 1, 2008	Additions	Deductions	Balance June 30, 2009	Due in One Year
General Obligation Bonds	\$154,880,000	\$ -	\$ 1,775,000	\$ 153,105,000	\$ 3,230,000
Premium on issuance	1,805,798	-	63,511	1,742,287	-
Certificates of Participation	60,213,670	-	1,355,665	58,858,005	1,370,665
Discount on issuance	(139,527)	-	(5,245)	(134,282)	-
Lease Revenue Bonds	4,710,000	-	175,000	4,535,000	180,000
Discount on issuance	(10,130)	-	(522)	(9,608)	-
Capital Leases	6,728,409	903,098	2,833,532	4,797,975	945,972
Accumulated Vacation - net	1,006,462	-	51,097	955,365	-
Supplemental Early Retirement Program	3,104,925	3,515,950	620,985	5,999,890	1,324,175
Claims Liability	-	2,792,545	-	2,792,545	-
Net OPEB Obligation	2,955,495	3,909,813	1,880,628	4,984,680	-
Total	<u>\$235,255,102</u>	<u>\$ 11,121,406</u>	<u>\$ 8,749,651</u>	<u>\$237,626,857</u>	<u>\$ 7,050,812</u>

- 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 and the Capital Facilities 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.

General Obligation Bonds Summary

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2008	Issued	Redeemed	Bonds Outstanding June 30, 2009
6/6/02	8/1/26	2.50% - 5.38%	\$ 23,000,000	\$ 20,250,000	\$ -	\$ 665,000	\$ 19,585,000
6/4/03	8/1/27	2.75% - 5.50%	15,000,000	13,520,000	-	435,000	13,085,000
5/26/04	8/1/28	4.00% - 5.00%	10,000,000	9,395,000	-	265,000	9,130,000
5/18/05	8/1/29	3.50% - 5.00%	6,000,000	5,755,000	-	160,000	5,595,000
1/17/06	8/1/30	4.00% - 6.50%	6,000,000	5,960,000	-	150,000	5,810,000
3/1/07	8/1/37	4.00% - 5.75%	60,000,000	60,000,000	-	100,000	59,900,000
3/4/08	8/1/38	4.50% - 5.25%	40,000,000	40,000,000	-	-	40,000,000
			<u>\$160,000,000</u>	<u>\$154,880,000</u>	<u>\$ -</u>	<u>\$ 1,775,000</u>	<u>\$153,105,000</u>

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

2002 General Obligation Bonds, Series A

In June 2002, the District issued \$23,000,000 of 2002 General Obligation Bonds, Series A. The bonds mature on August 1, 2026, with interest yields of 2.50 to 5.38 percent. Net proceeds from the issuance will be used to finance the construction of new schools and to improve and repair existing schools. At June 30, 2009, the principal balance outstanding was \$19,585,000.

The bonds mature through 2027 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 695,000	\$ 918,926	\$ 1,613,926
2011	730,000	893,076	1,623,076
2012	770,000	864,374	1,634,374
2013	805,000	833,259	1,638,259
2014	850,000	799,734	1,649,734
2015-2019	4,915,000	3,381,488	8,296,488
2020-2024	6,255,000	2,035,328	8,290,328
2025-2027	4,565,000	376,384	4,941,384
Total	<u>\$ 19,585,000</u>	<u>\$ 10,102,569</u>	<u>\$ 29,687,569</u>

2002 General Obligation Bonds, Series B

In June 2003, the District issued \$15,000,000 of 2002 General Obligation Bonds, Series B. The bonds mature on August 1, 2027, with interest yields of 2.75 to 5.50 percent. Net proceeds from the issuance will be used to finance the construction of new schools and to improve and repair existing schools. At June 30, 2009, the principal balance outstanding was \$13,085,000.

The bonds mature through 2028 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 455,000	\$ 493,186	\$ 948,186
2011	470,000	478,193	948,193
2012	495,000	464,305	959,305
2013	515,000	448,898	963,898
2014	535,000	432,221	967,221
2015-2019	3,065,000	1,862,235	4,927,235
2020-2024	3,820,000	1,204,534	5,024,534
2025-2028	3,730,000	326,187	4,056,187
Total	<u>\$ 13,085,000</u>	<u>\$ 5,709,759</u>	<u>\$ 18,794,759</u>

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

2002 General Obligation Bonds, Series C

In May 2004, the District issued \$10,000,000 of 2002 General Obligation Bonds, Series C. The bonds mature on August 1, 2028, with interest yields ranging from 4.0 to 5.0 percent. At June 30, 2009, the principal balance outstanding was \$9,130,000.

The bonds mature through 2029 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 280,000	\$ 429,152	\$ 709,152
2011	295,000	414,777	709,777
2012	310,000	399,653	709,653
2013	325,000	383,778	708,778
2014	340,000	368,853	708,853
2015-2019	1,965,000	1,607,840	3,572,840
2020-2024	2,455,000	1,101,245	3,556,245
2025-2028	2,465,000	393,375	2,858,375
2029	695,000	17,375	712,375
Total	<u>\$ 9,130,000</u>	<u>\$ 5,116,048</u>	<u>\$ 14,246,048</u>

2002 General Obligation Bonds, Series D

In May 2005, the District issued \$6,000,000 of the 2002 General Obligation Bonds, Series D. The bonds mature on August 1, 2029, with interest yields ranging from 3.50 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, 2009, the principal balance outstanding was \$5,595,000 and unamortized premium and issuance costs were \$58,397 and \$58,397, respectively. Premium and issuance costs are amortized over the life of the bonds as a component of interest expense on the bonds.

The bonds mature through 2030 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 165,000	\$ 229,018	\$ 394,018
2011	175,000	220,518	395,518
2012	185,000	212,905	397,905
2013	195,000	206,255	401,255
2014	205,000	199,255	404,255
2015-2019	1,140,000	868,538	2,008,538
2020-2024	1,400,000	612,996	2,012,996
2025-2029	1,740,000	280,703	2,020,703
2030	390,000	8,530	398,530
Total	<u>\$ 5,595,000</u>	<u>\$ 2,838,718</u>	<u>\$ 8,433,718</u>

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

2002 General Obligation Bonds, Series E

In January 2006, the District issued \$6,000,000 of the 2002 General Obligation Bonds, Series E. The bonds mature on August 1, 2030, with interest yields ranging from 4.00 to 6.50 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, 2009, the principal balance outstanding was \$5,810,000 and unamortized premium and issuance costs were \$82,676 and \$79,826, respectively. Premium and issuance costs are amortized over the life of the bonds as a component of interest expense on the bonds.

The bonds mature through 2031 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 160,000	\$ 245,500	\$ 405,500
2011	170,000	234,775	404,775
2012	175,000	224,875	399,875
2013	185,000	216,800	401,800
2014	190,000	209,300	399,300
2015-2019	1,085,000	922,800	2,007,800
2020-2024	1,355,000	679,281	2,034,281
2025-2029	1,700,000	361,267	2,061,267
2030-2031	790,000	35,000	825,000
Total	<u>\$ 5,810,000</u>	<u>\$ 3,129,598</u>	<u>\$ 8,939,598</u>

2006 General Obligation Bonds, Series A

In March 2007, the District issued \$60,000,000 of the 2006 General Obligation Bonds, Series A. The bonds mature on August 1, 2037, with interest yields ranging from 4.00 to 5.75 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, 2009, the principal balance outstanding was \$59,900,000 and unamortized premium and issuance costs were \$967,234 and \$593,839, respectively. Premium and issuance costs are amortized over the life of the bonds as a component of interest expense on the bonds.

The bonds mature through 2038 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 930,000	\$ 2,634,565	\$ 3,564,565
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
2015-2019	7,300,000	11,269,366	18,569,366
2020-2024	9,075,000	9,422,920	18,497,920
2025-2029	11,170,000	7,130,086	18,300,086
2030-2034	13,715,000	4,495,269	18,210,269
2035-2038	13,150,000	1,213,873	14,363,873
Total	<u>\$ 59,900,000</u>	<u>\$ 46,275,539</u>	<u>\$ 106,175,539</u>

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

2006 General Obligation Bonds, Series B

In March 2008, the District issued \$40,000,000 of the 2006 General Obligation Bonds, Series B. The bonds mature on August 1, 2038, with interest yields ranging from 4.50 to 5.25 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, 2009, the principal balance outstanding was \$40,000,000 and unamortized premium and issuance costs were \$633,980 and \$633,980, respectively. Premium and issuance costs are amortized over the life of the bonds as a component of interest expense on the bonds.

The bonds mature through 2039 as follows:

Fiscal Year	Principal	Interest	Total
2010	\$ 545,000	\$ 2,007,850	\$ 2,552,850
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
2015-2019	4,025,000	8,865,119	12,890,119
2020-2024	5,270,000	7,694,538	12,964,538
2025-2029	6,880,000	6,167,200	13,047,200
2030-2034	8,990,000	4,190,097	13,180,097
2035-2039	11,755,000	1,556,259	13,311,259
Total	\$ 40,000,000	\$ 38,212,838	\$ 78,212,838

Certificates of Participation Summary

Issue Date	Maturity Date	Original Issue	COP		Redeemed	COP	
			Outstanding July 1, 2008	Issued		Outstanding June 30, 2009	
10/14/04	10/01/32	\$ 23,425,000	\$ 21,710,000	\$ -	\$ 655,000	\$ 21,055,000	
12/13/05	12/27/20	5,000,000	4,448,670	-	275,665	4,173,005	
06/13/06	10/01/36	29,445,000	29,445,000	-	-	29,445,000	
11/21/07	10/01/36	4,610,000	4,610,000	-	425,000	4,185,000	
		\$ 62,480,000	\$ 60,213,670	\$ -	\$ 1,355,665	\$ 58,858,005	

2004 Certificates of Participation

On October 14, 2004, the Hemet Unified School District School Facilities Corporation issued the 2004 Certificates of Participation in the amount of \$23,425,000. The certificates were issued at an aggregate price of \$22,833,528 (representing the principal amount of \$23,425,000 less an original issue discount of \$51,382 less underwriter's discount and cost of issuance of \$540,090). The bonds mature October 1, 2032.

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

A portion of the certificates of participation are being issued to prepay \$6,945,000 of the outstanding Hemet Unified School District School Facilities Corporation 1993 Certificates of Participation. The certificates associated with the \$6,945,000 of 1993 Certificates of Participation were prepaid December 2004. The remaining portion of the 2004 Certificates of Participation are being used to acquire, construct, deliver, and install school facilities, buildings, land and capital projects, fund a reserve fund, and pay the cost related to the execution and delivery of the issuance. As of June 30, 2009, the principal balance of \$21,055,000 remained outstanding.

Fiscal Year	Principal	Interest to Maturity	Total
2010	\$ 670,000	\$ 888,346	\$ 1,558,346
2011	685,000	868,170	1,553,170
2012	710,000	844,614	1,554,614
2013	735,000	818,959	1,553,959
2014	760,000	791,289	1,551,289
2015-2019	4,205,000	3,473,044	7,678,044
2020-2024	5,175,000	2,473,134	7,648,134
2025-2029	6,370,000	1,181,525	7,551,525
2030-2033	1,745,000	105,102	1,850,102
Total	\$ 21,055,000	\$ 11,444,183	\$ 32,499,183

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, issuance and other 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 expected interest to be earned in the investment account is \$823,719. As of June 30, 2009, US Bank held \$868,301 for payment of principal.

Year Ending June 30,	District Payment	Expected Earned Interest	Total
2010	\$ 275,665	\$ 10,281	\$ 285,946
2011	275,665	30,473	306,138
2012	275,665	38,615	314,280
2013	275,665	46,966	322,631
2014	275,665	55,538	331,203
2015-2019	1,378,325	414,474	1,792,799
2020-2021	551,330	227,372	778,702
Total	\$ 3,307,980	\$ 823,719	\$ 4,131,699

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

2006 Certificates of Participation

On June 13, 2006, the District, pursuant to a lease agreement with the Hemet Unified School District Facilities Corporation, issued certificates of participation in the amount of \$29,445,000 with variable interest rate (weekly). 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, 2009, the principal balance outstanding was \$29,445,000.

The certificates mature through 2037 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2010	\$ -	\$ 1,155,716	\$ 1,155,716
2011	105,000	1,153,661	1,258,661
2012	290,000	1,148,267	1,438,267
2013	400,000	1,130,048	1,530,048
2014	435,000	1,115,999	1,550,999
2015-2019	2,995,000	5,271,942	8,266,942
2020-2024	4,545,000	4,529,327	9,074,327
2025-2029	6,320,000	3,470,009	9,790,009
2030-2034	11,860,000	1,572,496	13,432,496
2035-2037	2,495,000	149,994	2,644,994
Total	\$ 29,445,000	\$ 20,697,459	\$ 50,142,459

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, 2009, the principal balance outstanding was \$4,185,000.

The certificates mature through 2037 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2010	\$ 425,000	\$ 178,700	\$ 603,700
2011	175,000	164,575	339,575
2012	50,000	160,075	210,075
2013	-	159,075	159,075
2014	-	159,075	159,075
2015-2019	-	795,375	795,375
2020-2024	-	795,375	795,375
2025-2029	300,000	778,725	1,078,725
2030-2034	1,380,000	592,200	1,972,200
2035-2037	1,855,000	152,663	2,007,663
Total	\$ 4,185,000	\$ 3,935,838	\$ 8,120,838

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

2005 Refunding Lease Revenue Bonds

On November 22, 2005, the Hemet Unified School District issued the 2005 Refunding Lease Revenue Bonds in the amount of \$5,205,000. The bonds were issued at an aggregate price of \$4,907,466 (representing the principal amount of \$5,205,000 less discount of \$11,478, underwriter's discount of \$71,281 and cost of issuance of \$214,775). The bonds mature April 1, 2027, and yield interest rates of 3.40 to 4.50 percent.

The bonds were issued to refund the outstanding Hemet Unified School District School Facilities Corporation 1997 Certificates of Participation. The 1997 Certificates of Participation were redeemed April 1, 2007. As this advance refunding has met the requirements of an in-substance defeasance, debt obligations outstanding of the 1997 COP has been removed as long-term obligations of the District. Deferred charges on refunding of \$37,875 remain to be amortized into interest expense over the prepayment period. As of June 30, 2009, the principal balance of \$4,535,000 remains outstanding.

The bonds mature through 2027 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2010	\$ 180,000	\$ 187,126	\$ 367,126
2011	185,000	181,007	366,007
2012	190,000	174,716	364,716
2013	200,000	168,066	368,066
2014	205,000	160,866	365,866
2015-2019	1,155,000	680,565	1,835,565
2020-2024	1,410,000	417,344	1,827,344
2025-2027	1,010,000	92,025	1,102,025
Total	<u>\$ 4,535,000</u>	<u>\$ 2,061,715</u>	<u>\$ 6,596,715</u>

Capital Leases

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

	Copiers	Vehicles	Relocatables	Energy Management Equipment	Total
Balance, July 1, 2008	\$ 46,646	\$ 1,018,625	\$ 2,489,141	\$ 4,294,897	\$ 7,849,309
Additions	-	987,106	-	-	987,106
Payments	46,646	498,944	2,122,619	497,494	3,165,703
Balance, June 30, 2009	<u>\$ -</u>	<u>\$ 1,506,787</u>	<u>\$ 366,522</u>	<u>\$ 3,797,403</u>	<u>\$ 5,670,712</u>

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2010	\$ 1,156,963
2011	1,143,494
2012	683,623
2013	580,977
2014	575,977
2015-2019	1,529,678
Total	5,670,712
Less: Amount Representing Interest	872,737
Present Value of Minimum Lease Payments	<u>\$ 4,797,975</u>

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2009, amounted to \$955,365.

Supplemental Employee Retirement Plan (SERP)

The District offered an early retirement incentive to qualified employees under a qualified plan of Section 401A of the Internal Revenue Code. Eligibility requirements are that the employees attain age 50 with at least ten years of service with the District. The retiree receives an annual benefit payment equal to five percent of their final annual salary on the salary schedule. This benefit is paid out annually to the retiree in equal installments. Currently, there are 56 employees participating in this plan and the District's obligation to those retirees as of June 30, 2009, is \$5,999,890.

Year Ending June 30,	Amount
2010	\$ 1,406,318
2011	1,406,318
2012	1,406,318
2013	1,406,318
2014	748,074
Total	6,373,346
Less: Amount Representing Interest	373,456
Total	<u>\$ 5,999,890</u>

Claims Liability

The District has an outstanding long-term liability for incurred, but not reported, claims for the District's Workers' Compensation Insurance Program in the amount of \$2,792,545.

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

Other Postemployment Benefit (OPEB) Obligation

The District implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* during the year ended June 30, 2008. The District's annual OPEB cost for the year ended June 30, 2009, was \$3,792,736 and contributions made by the District during the year were \$1,763,551, which resulted in an increase in the net OPEB obligation of \$2,029,185. The net OPEB obligation for the District at June 30, 2009, amounted to \$4,984,680. See Note 12 for additional information regarding the OPEB Obligation and the postemployment benefit plan.

NOTE 10 - 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 \$42,500,000 as of June 30, 2009, does not represent debt of the District and, as such, does not appear in the accompanying basic financial statements.

NOTE 11 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
Reserved					
Revolving cash	\$ 25,000	\$ -	\$ -	\$ -	\$ 25,000
Stores inventories	313,312	-	-	364,896	678,208
Prepaid expenditures	1,465,104	-	-	-	1,465,104
Restricted programs	9,271,296	-	-	-	9,271,296
Total Reserved	11,074,712	-	-	364,896	11,439,608
Unreserved					
Designated					
Economic uncertainties	-	-	-	1,504,209	1,504,209
Other designation	9,097,376	-	-	624,483	9,721,859
Total Designated	9,097,376	-	-	2,128,692	11,226,068
Undesignated	5,783,240	33,547,981	10,639,800	16,638,295	66,609,316
Total Unreserved	14,880,616	33,547,981	10,639,800	18,766,987	77,835,384
Total	\$ 25,955,328	\$ 33,547,981	\$ 10,639,800	\$ 19,131,883	\$ 89,274,992

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

NOTE 12 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

Plan Description

The Postemployment Benefit Plan (*the Plan*) is a single-employer defined benefit healthcare plan administered by the Hemet Unified School District. The Plan provides medical, dental, and vision insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of 121 retirees and beneficiaries currently receiving benefits and 2,083 active Plan members.

Contribution Information

The contribution requirements of Plan members and the District are established and may be amended by the District and the Hemet Teachers Association (HTA), the local California Service Employees Association (CSEA), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2008-2009, the District contributed \$1,763,551 to the Plan, all of which was used for current premiums.

Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	\$ 3,791,593
Interest on net OPEB obligation	118,220
Adjustment to annual required contribution	(117,077)
Annual OPEB cost (expense)	<u>3,792,736</u>
Contributions made	<u>(1,763,551)</u>
Increase in net OPEB obligation	2,029,185
Net OPEB obligation, beginning of year	<u>2,955,495</u>
Net OPEB obligation, end of year	<u><u>\$ 4,984,680</u></u>

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation was as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
2008	\$ 3,418,208	13.54%	\$ 2,955,495
2009	3,792,736	46.50%	4,984,680

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

Funded Status and Funding Progress

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

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2008, actuarial valuation, the Entry Age Normal Actuarial Cost Method was used. The actuarial assumptions included a 4.0 percent investment rate of return, based on assumed long-term return on plan assets or employer assets, as appropriate. Healthcare cost trend rates were assumed at an initial rate of 8.5 percent to an ultimate rate of 5.5 percent for the plan year beginning July 1, 2009.

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 Property and Liability Program, for which the District retains risk of loss, is administered by the Alliance of Schools Cooperative Insurance Programs JPA. Refer to Note 16 for additional information regarding the JPAs.

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

Claims Liabilities

The District is self-insured for medical, dental, vision, and workers' compensation. The maximum Self-Insurance amount is \$125,000 per claim. The District has a stop loss policy for claims that exceed the maximum self-insured amount.

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.

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

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, 2007 to June 30, 2009:

	<u>Health Care</u>	<u>Workers' Compensation</u>
Liability Balance, July 1, 2007	\$ 1,351,000	\$ 545,000
Claims provision	12,317,355	2,920,163
Claims paid	<u>(11,558,355)</u>	<u>(836,941)</u>
Liability Balance, June 30, 2008	2,110,000	2,628,222
Claims provision	11,790,878	991,376
Claims paid	<u>(12,557,878)</u>	<u>(691,376)</u>
Liability Balance, June 30, 2009	<u>\$ 1,343,000</u>	<u>\$ 2,928,222</u>
Amount available to pay claims	<u>\$ 5,141,031</u>	<u>\$ 6,404,063</u>

NOTE 14 - EMPLOYEE RETIREMENT SYSTEMS

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

CalSTRS

Plan Description

The District contributes to CalSTRS; a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7919 Folsom Blvd., Sacramento, California 95826.

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

Funding Policy

Active plan members are required to contribute 8.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2008-2009 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the fiscal years ending June 30, 2009, 2008, and 2007, were \$7,368,724, \$7,738,334, and \$7,118,196, respectively, and equal 100 percent of the required contributions for each year.

CalPERS

Plan Description

The District contributes to the School Employer Pool under CalPERS; a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95811.

Funding Policy

Active plan members are required to contribute 7.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2008-2009 was 9.428 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2009, 2008, and 2007, were \$3,079,453, \$2,845,262, and \$2,412,589, respectively, and equal 100 percent of the required contributions for each year.

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 \$4,134,905 (4.517 percent of salaries subject to CalSTRS). No contributions were made to CalPERS for the year ended June 30, 2009. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budget amounts reported in the *General Fund Budgetary Comparison Schedule*.

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

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, 2009.

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, 2009.

Construction Commitments

As of June 30, 2009, the District had the following commitments with respect to the unfinished capital projects:

<u>Capital Projects</u>	<u>Remaining Construction Commitments</u>	<u>Expected Date of Completion</u>
Tahquitz High School	\$ 290,886	10/2009
Rancho Viejo Middle School	32,219	10/2009
Hemet High Master Plan Phase I	11,494,344	9/2012
Cottonwood Library	243,836	9/2010
Page Ranch Elementary (New Elem #5)	45,000	8/2011
New Elementary #6	5,000	8/2013
Gibbel Elementary (New Elem #8)	5,000	8/2012
Pleasant Valley Elementary (New Elem #10)	8,346	8/2014
Stoney Ridge Elementary (New Elem #11)	5,000	8/2014
Currie Ranch Elementary (New Elem #12)	5,000	8/2012
Freedom Middle School (New Middle #2)	6,922	8/2011
New Middle School #5	10,796	8/2015
Domenigoni Middle School (New Middle #8)	2,500	8/2017
New High School #3	2,500	8/2020
Cottonwood Master Plan (Includes Well)	64,734	2/2010
Idyllwild HVAC & Building Improvements	53,298	12/2009
West Valley Track & Ball Fields	23,218	12/2009
Valle Vista Relocatables	245,619	10/2009
	<u>\$ 12,544,218</u>	

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

NOTE 16 - PARTICIPATION JOINT POWERS AUTHORITY

The District is a member of the Alliance of Schools Cooperative Insurance Programs (ASCIP) 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, 2009, the District made payments of \$781,002 to ASCIP, for services received.

NOTE 17 - FISCAL ISSUES RELATING TO BUDGET REDUCTIONS

The State of California continues to suffer the effects of a recessionary economy. California school districts are reliant on the State of California to appropriate the funding necessary to continue the level of educational services expected by the State constituency. With the implementation of education trailer bill Senate Bill 4 of the 2009-2010 Third Extraordinary Session (SBX3 4) (Chapter 12, Statutes of 2009), 14 percent of current year appropriations have now been deferred to a subsequent period, creating significant cash flow management issues for districts in addition to requiring substantial budget reductions, ultimately impacting the ability of California school districts to meet their goals for educational services.

NOTE 18 - SUBSEQUENT EVENTS

Tax and Revenue Anticipation Notes

The District issued \$14,775,000 of Tax and Revenue Anticipation Notes dated July 1, 2009. The notes mature on July 1, 2010, and yield 0.954 percent interest. The notes were sold to supplement cash flow. Repayment requirements are that a percentage of principal and interest be deposited with the Fiscal Agent each month beginning February 2010, until 100 percent of principal and interest due is on account in May 2010.

Assembly Bill of the Fourth Extraordinary Session (ABX4 3)

On July 28, 2009, Governor Schwarzenegger signed a package of bills amending the 2008-2009 and 2009-2010 California State budgets. The budget amendments were designed to address the State's budget gap of \$24 billion that had developed as a result of the deepening recession since the State's last budget actions in February 2009.

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

The July budget package reduced, on a State-wide basis, \$1.6 billion in 2008-2009 Proposition 98 funding through a reversion of undistributed categorical program balances. The budget language identified 51 specific programs and required the amounts associated with these programs that were "unallocated, unexpended, or not liquidated as of June 30, 2009," to revert to the State's General Fund. The July budget package also provided an appropriation in 2009-2010 to backfill \$1.5 billion of these cuts to repay the 2008-2009 reversion of the undistributed categorical program balances.

In accordance with the requirements of GASB Statement No. 33, the District has not recorded the revenue and related receivable associated with the District's portion of the unallocated, unexpended or unliquidated categorical program balances identified in the July 2009 State Budget package.

REQUIRED SUPPLEMENTARY INFORMATION

HEMET UNIFIED SCHOOL DISTRICT

GENERAL FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2009

	Budgeted Amounts		Actual (GAAP Basis)	Variances -
	(GAAP Basis)			Positive
	Original	Final		(Negative) Final to Actual
REVENUES				
Revenue limit sources	\$130,276,237	\$122,104,994	\$127,172,355	\$ 5,067,361
Federal sources	13,537,965	21,084,517	22,190,296	1,105,779
Other State sources	23,887,681	24,599,034	27,570,381	2,971,347
Other local sources	21,063,905	23,873,359	23,719,589	(153,770)
Total Revenues ¹	188,765,788	191,661,904	200,652,621	8,990,717
EXPENDITURES				
Current				
Instruction	111,812,685	115,271,403	119,234,050	(3,962,647)
Instruction-related activities:				
Supervision of instruction	6,825,256	7,433,857	7,417,203	16,654
Instructional library, media, and technology	1,472,443	1,603,739	1,600,146	3,593
School site administration	12,673,083	13,803,130	13,772,206	30,924
Pupil services:				
Home-to-school transportation	8,455,707	8,897,225	8,194,547	702,678
Food services	31,590	33,240	30,615	2,625
All other pupil services	10,172,642	10,703,810	9,858,453	845,357
Administration:				
Data processing	2,394,716	2,387,166	2,178,240	208,926
All other administration	8,673,040	8,645,695	7,889,018	756,677
Plant services	17,829,409	18,090,130	17,616,653	473,477
Facility acquisition and construction	110,535	112,151	109,216	2,935
Ancillary services	1,037,625	1,063,237	2,544,571	(1,481,334)
Community services	-	79,151	90,501	(11,350)
Other outgo	4,544,265	5,517,805	6,638	5,511,167
Debt service				
Principal	-	-	794,133	(794,133)
Total Expenditures ¹	186,032,996	193,641,739	192,342,034	1,299,705
Excess (Deficiency) of Revenues Over Expenditures	2,732,792	(1,979,835)	8,310,587	10,290,422
OTHER FINANCING SOURCES (USES)				
Transfers in	300,000	418,820	419,098	278
Other sources	-	962,126	903,098	(59,028)
Transfers out	-	(1,698,591)	(5,365,393)	(3,666,802)
Net Financing Sources (Uses)	300,000	(317,645)	(4,043,197)	(3,725,552)
NET CHANGE IN FUND BALANCES	3,032,792	(2,297,480)	4,267,390	6,564,870
Fund Balance - Beginning	21,687,938	21,687,938	21,687,938	-
Fund Balance - Ending	\$ 24,720,730	\$ 19,390,458	\$ 25,955,328	\$ 6,564,870

¹ On behalf payments of \$4,134,905 are included in the actual revenues and expenditures, but have not been included in the budgeted amounts.

HEMET UNIFIED SCHOOL DISTRICT

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING
PROGRESS
FOR THE YEAR ENDED JUNE 30, 2009**

Schedule of Funding Progress						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
January 1, 2007	\$ -	\$ 26,724,934	\$ 26,724,934	0%	\$ 107,818,224	25%
July 1, 2008	-	30,204,004	30,204,004	0%	121,877,577	25%

SUPPLEMENTARY INFORMATION

HEMET UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009**

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF EDUCATION			
Direct Award			
Indian Education	84.060A	10011	\$ 12,033
Passed through California Department of Education (CDE):			
Elementary and Secondary Education Act as amended by the No Child Left Behind of 2001 (NCLB)			
Title I, Part A - Basic Grants Low Income and Neglected	84.010	14329	5,154,843
Title I, Part A - School Improvement, SAIT Corrective Action Plans	84.010A	14579	5,295
Title I, Part A - Program Improvement LEA Corrective Action Resources	84.010	14957	370,671
Title I, Part B - Reading First Program	84.357A	14328	815,996
Title II, Part A - Improving Teacher Quality Local Grants	84.367	14341	834,231
Title II, Part D - Enhancing Education Through Technology, Formula Grants	84.318	14334	58,487
Title III - Limited English Proficiency	84.365	10084	215,484
Title III - Immigrant Education Program	84.365	14346	35,069
Title IV, Part A - Safe and Drug Free Schools and Communities, Formula Grants	84.186	14347	78,231
Title IV, Part B - 21st Century Community Learning Centers Program	84.287	14535	205,778
Title V, Part A - Innovative Education Strategies, Formula Entitlements	84.298A	14354	2,191
Title V, Part B - Public Charter School Grants Program	84.282	14531	65,511
Advance Placement Test Fee Program	84.330	14333	3,528
Vocational Programs:			
Vocational and Applied Technology Secondary II C, Sec 131	84.048	14894	155,160
Readiness and Emergency Management for Schools (REMS)	84.184E	[1]	11,218
Passed through Riverside County Special Education Local Plan Area:			
Individuals with Disabilities Education Act (IDEA):			
Basic Local Assistance, Part B, Sec 611	84.027	13379	4,234,832
Preschool Local Entitlement, Part B, Sec 611	84.027A	13682	165,771
Federal Preschool Grants, Part B, Sec 619	84.173	13430	81,903
Preschool Staff Development, Part B, Sec 619	84.173A	13431	639
Local Assistance, Part B, Sec 611, Private Schools ISPs	84.027	10115	11,892
Total U.S. Department of Education			<u>12,518,763</u>

[1] Direct funded program, 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, 2009**

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Passed through the CDE:			
Forest Reserve	10.665	10044	\$ 36,364
Especially Needy Breakfast	10.553	13526	1,391,086
National School Lunch Program	10.555	13396	5,554,033
Meal Supplements	10.555	13158	210,751
Child Care Food Program	10.558	13666	145,220
Summer Food Service Program	10.559	13004	115,980
Food Distribution	10.555	13389	555,917
Total U.S. Department of Agriculture			<u>8,009,351</u>
U.S. DEPARTMENT OF DEFENSE			
Junior Reserve Officers Training Corps	12.000	[1]	3,098
Total U.S. Department of Defense			<u>3,098</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through Riverside County Office of Education:			
Headstart	93.600	10016	1,056,080
Child Care and Development Block Grant	93.575	14130	3,476
Passed through California Department of Health Services:			
Medi-Cal Billing Option	93.778	10013	425,731
Medi-Cal Administrative Activities	93.778	10060	481,394
Total U.S. Department of Health and Human Services			<u>1,966,681</u>
Total Expenditures of Federal Awards			<u>\$ 22,497,893</u>

[1] Direct funded program, Pass-Through Entity Identifying Number not available.

See accompanying note to supplementary information.

HEMET UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2009

ORGANIZATION

The Hemet Unified School District was established on July 1, 1966, and consists of an area comprising approximately 639.96 square miles. The District operates fifteen elementary schools, four middle schools, three high schools, one continuation school, two alternative independent study schools, one community day school, an adult school, and one charter school. There were no boundary changes during the year.

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Greg Figgins	President	2010
Joe Wojcik	Vice President	2010
Marilyn Forst	Member	2012
Charlotte Jones	Member	2012
Phyllis L. Petri	Member	2010
William Sanborn	Member	2010
Lisa DeForest	Member	2012

ADMINISTRATION

Philip O. Pendley, Ed.D.	Superintendent
Mary Wulfsberg	Deputy Superintendent, Educational Services
LaFaye Platter	Assistant Superintendent, Human Resources
Richard M. Beck	Assistant Superintendent, Business Services
Caryl Miller	Assistant Superintendent, Student Support Services
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, 2009

	Second Period Report	Annual Report
ELEMENTARY		
Kindergarten	1,412	1,435
First through third	4,695	4,730
Fourth through sixth	4,771	4,782
Seventh and eighth	3,243	3,230
Home and hospital	4	4
Community day schools	8	8
Special education	642	649
Total Elementary	14,775	14,838
SECONDARY		
Regular classes	5,941	5,871
Continuation education	426	415
Home and hospital	3	4
Community day schools	51	42
Special education	376	390
Total Secondary	6,797	6,722
Total K-12	21,572	21,560
CLASSES FOR ADULTS		
Concurrently enrolled	39	38
Not concurrently enrolled	170	169
Total Classes for Adults	209	207
Grand Total	21,781	21,767
 HAAT CHARTER SCHOOL		
Ninth through twelfth	149	148
 HAAT CHARTER SCHOOL - Classroom Based Instruction		
Ninth through twelfth	149	148
 SUMMER SCHOOL		
Elementary		916,836
High school		234,897
Total Hours		1,151,733

See accompanying note to supplementary information.

HEMET UNIFIED SCHOOL DISTRICT

**SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2009**

Grade Level	1982-83	1986-87	2008-09	Number of Days		Status
	Actual Minutes	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Kindergarten	31,500	36,000	36,000	180	N/A	Complied
Grades 1 - 3	43,095	50,400				
Grade 1			52,210	180	N/A	Complied
Grade 2			52,210	180	N/A	Complied
Grade 3			52,210	180	N/A	Complied
Grades 4 - 8	51,075	54,000				
Grade 4			54,080	180	N/A	Complied
Grade 5			54,080	180	N/A	Complied
Grade 6			54,080	180	N/A	Complied
Grade 7			57,900	180	N/A	Complied
Grade 8			57,900	180	N/A	Complied
Grades 9 - 12	56,022	64,800				
Grade 9			64,900	180	N/A	Complied
Grade 10			64,900	180	N/A	Complied
Grade 11			64,900	180	N/A	Complied
Grade 12			64,900	180	N/A	Complied

Hemet Academy for Applied Academics and Technology

Grade Level	1986-87	2008-09	Number of Days		Status
	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Grades 9 - 12	64,800				
Grade 9		65,392	180	N/A	Complied
Grade 10		65,392	180	N/A	Complied
Grade 11		65,392	180	N/A	Complied
Grade 12		65,392	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, 2009

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

	General Fund	Internal Service Fund
	<u> </u>	<u> </u>
FUND BALANCE		
Balance, June 30, 2009, Unaudited Actuals	\$ 28,863,988	\$ 8,739,976
Decrease in:		
Receivables ¹	(2,908,660)	-
Increase in:		
Claims liability	-	(300,000)
Long term IBNR	-	(1,269,270)
Balance, June 30, 2009, Audited Financial Statement	<u>\$ 25,955,328</u>	<u>\$ 7,170,706</u>

¹ The adjustment is the ABX4 3 categorical un-appropriated state categorical as described in Note 18.

See accompanying note to supplementary information.

HEMET UNIFIED SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2009

	(Budget)			
	2010 ¹	2009	2008	2007
GENERAL FUND				
Revenues	\$175,262,301	\$200,652,621	\$198,398,425	\$193,104,794
Other sources and transfers in	127,011	1,322,196	2,300,000	1,131,778
Total Revenues and Other Sources	<u>175,389,312</u>	<u>201,974,817</u>	<u>200,698,425</u>	<u>194,236,572</u>
Expenditures	180,283,376	192,342,034	195,985,204	179,289,704
Other uses and transfers out	1,296,961	5,365,393	3,890,668	4,860,517
Total Expenditures and Other Uses	<u>181,580,337</u>	<u>197,707,427</u>	<u>199,875,872</u>	<u>184,150,221</u>
INCREASE (DECREASE) IN FUND BALANCE	<u>\$ (6,191,025)</u>	<u>\$ 4,267,390</u>	<u>\$ 822,553</u>	<u>\$ 10,086,351</u>
ENDING FUND BALANCE	<u>\$ 19,764,303</u>	<u>\$ 25,955,328</u>	<u>\$ 21,687,938</u>	<u>\$ 20,865,385</u>
AVAILABLE RESERVES²	<u>\$ 13,184,348</u>	<u>\$ 5,901,141</u>	<u>\$ 5,876,490</u>	<u>\$ 8,326,553</u>
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO³	<u>7.26%</u>	<u>3.05%</u>	<u>3.00%</u>	<u>4.62%</u>
LONG-TERM OBLIGATIONS	<u>N/A</u>	<u>\$237,626,857</u>	<u>\$235,255,102</u>	<u>\$189,088,096</u>
K-12 AVERAGE DAILY ATTENDANCE AT P-2⁴	<u>20,866</u>	<u>21,572</u>	<u>22,020</u>	<u>21,939</u>

The General Fund balance has increased by \$5,089,943 over the past two years. The fiscal year 2009-2010 budget projects a decrease of \$6,191,025 (23.85 percent). For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in each of the past three years, but anticipates incurring an operating deficit during the 2009-2010 fiscal year. Total long-term obligations have increased by \$48,538,761 over the past two years.

Average daily attendance has decreased by 367 over the past two years. Additional decline of 706 ADA is anticipated during fiscal year 2009-2010.

¹ Budget 2010 is included for analytical purposes only and has not been subjected to audit.

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

³ On behalf payments of \$4,134,905, \$4,326,438, and \$3,982,182 have been excluded from the calculation of available reserves for the fiscal years ending June 30, 2009, 2008, and 2007.

⁴ Excludes Adult Education and Charter School ADA.

See accompanying note to supplementary information.

HEMET UNIFIED SCHOOL DISTRICT

**SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2009**

<u>Name of Charter School</u>	<u>Included in Audit Report</u>
Hemet Academy of Applied Academics and Technology	Yes

See accompanying note to supplementary information.

HEMET UNIFIED SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS COMBINING BALANCE SHEET JUNE 30, 2009

	Charter Schools Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
ASSETS					
Deposits and investments	\$ 133,232	\$ 268,023	\$ 185,922	\$ 2,778,599	\$ 1,414,504
Restricted cash	-	-	-	-	-
Receivables	284,224	1,877	132,598	460,757	2,682
Due from other funds	36,381	55,900	9,437	-	-
Stores inventories	-	-	-	364,896	-
Total Assets	\$ 453,837	\$ 325,800	\$ 327,957	\$ 3,604,252	\$ 1,417,186
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 62,182	\$ 2,551	\$ 27,029	\$ 174,248	\$ 11,065
Due to other funds	121,467	8,353	205,091	936,416	-
Total Liabilities	183,649	10,904	232,120	1,110,664	11,065
Fund Balances:					
Reserved for:					
Stores inventories	-	-	-	364,896	-
Unreserved:					
Designated	-	-	-	2,128,692	-
Undesignated, reported in:					
Special revenue funds	270,188	314,896	95,837	-	1,406,121
Debt service funds	-	-	-	-	-
Capital projects funds	-	-	-	-	-
Total Fund Balance	270,188	314,896	95,837	2,493,588	1,406,121
Total Liabilities and Fund Balances	\$ 453,837	\$ 325,800	\$ 327,957	\$ 3,604,252	\$ 1,417,186

See accompanying note to supplementary information.

Special Reserve Fund for Other Than Capital Outlay Projects	Capital Facilities Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Capital Projects for Blended Component Units Fund	Debt Service For Blended Component Units Fund	Non-Major Governmental Funds
\$ 416,323	\$ 2,955,765	\$ 2,057,528	\$ 19,189	\$ 3,505,407	\$ -	\$ 13,734,492
-	-	-	-	-	4,257,550	4,257,550
1,578	17,823	7,822	73	-	-	909,434
-	1,751,746	-	-	-	-	1,853,464
-	-	-	-	-	-	364,896
\$ 417,901	\$ 4,725,334	\$ 2,065,350	\$ 19,262	\$ 3,505,407	\$ 4,257,550	\$ 21,119,836
\$ -	\$ 87,805	\$ -	\$ -	\$ -	\$ -	\$ 364,880
300,000	-	-	-	-	51,746	1,623,073
300,000	87,805	-	-	-	51,746	1,987,953
-	-	-	-	-	-	364,896
-	-	-	-	-	-	2,128,692
117,901	-	-	-	-	-	2,204,943
-	-	-	-	-	4,205,804	4,205,804
-	4,637,529	2,065,350	19,262	3,505,407	-	10,227,548
117,901	4,637,529	2,065,350	19,262	3,505,407	4,205,804	19,131,883
\$ 417,901	\$ 4,725,334	\$ 2,065,350	\$ 19,262	\$ 3,505,407	\$ 4,257,550	\$ 21,119,836

HEMET UNIFIED SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2009**

	Charter Schools Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
REVENUES					
Revenue limit sources	\$ 1,071,174	\$ -	\$ -	\$ -	\$ -
Federal sources	141,140	-	148,696	7,827,767	-
Other State sources	143,207	498,584	1,077,063	649,566	-
Other local sources	108,859	108,087	6,348	1,705,180	13,050
Total Revenues	1,464,380	606,671	1,232,107	10,182,513	13,050
EXPENDITURES					
Current					
Instruction	805,859	373,456	771,647	-	-
Instruction-related activities:					
Supervision of instruction	41,528	1,835	168,029	-	-
Instructional library, media and technology	3,128	-	-	-	-
School site administration	188,338	258,402	64,188	-	-
Pupil services:					
Food services	-	-	195,567	8,505,361	-
All other pupil services	33,195	-	-	-	-
Administration:					
Data processing	390	-	-	-	-
All other administration	36,983	27,085	68,974	401,633	-
Plant services	146,980	1,933	4,439	282,068	863,776
Facility acquisition and construction	-	-	-	-	8,600
Other outgo	-	-	-	-	-
Debt service					
Principal	-	929	-	175,000	-
Interest and other	-	-	-	193,794	-
Total Expenditures	1,256,401	663,640	1,272,844	9,557,856	872,376
Excess (Deficiency) of Revenues Over Expenditures	207,979	(56,969)	(40,737)	624,657	(859,326)
OTHER FINANCING SOURCE (USES)					
Transfers in	206	90,104	-	-	1,698,348
Transfers out	(119,098)	-	-	-	-
Net Financing Sources (Uses)	(118,892)	90,104	-	-	1,698,348
NET CHANGE IN FUND BALANCES	89,087	33,135	(40,737)	624,657	839,022
Fund Balance - Beginning	181,101	281,761	136,574	1,868,931	567,099
Fund Balance - Ending	\$ 270,188	\$ 314,896	\$ 95,837	\$ 2,493,588	\$ 1,406,121

See accompanying note to supplementary information.

Special Reserve Fund for Other Than Capital Outlay Projects	Capital Facilities Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Capital Projects for Blended Component Units Fund	Debt Service For Blended Component Units Fund	Non-Major Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,071,174
-	-	-	-	-	-	8,117,603
-	-	1,446,256	-	-	-	3,814,676
25,758	626,933	54,455	449	270,340	453,261	3,372,720
25,758	626,933	1,500,711	449	270,340	453,261	16,376,173
-	-	-	-	-	-	1,950,962
-	-	-	-	-	-	211,392
-	-	-	-	-	-	3,128
-	-	-	-	-	-	510,928
-	-	-	-	-	-	8,700,928
-	-	-	-	-	-	33,195
-	-	-	-	-	-	390
-	59,213	-	-	240,029	-	833,917
-	162,270	-	-	-	-	1,461,466
-	971,677	1,446,256	-	897,105	-	3,323,638
-	-	-	-	180,480	476	180,956
-	238,378	-	-	-	1,255,000	1,669,307
-	25,598	-	-	-	2,966,700	3,186,092
-	1,457,136	1,446,256	-	1,317,614	4,222,176	22,066,299
25,758	(830,203)	54,455	449	(1,047,274)	(3,768,915)	(5,690,126)
-	367,710	-	-	-	3,576,735	5,733,103
(300,000)	-	-	-	(315,964)	(51,746)	(786,808)
(300,000)	367,710	-	-	(315,964)	3,524,989	4,946,295
(274,242)	(462,493)	54,455	449	(1,363,238)	(243,926)	(743,831)
392,143	5,100,022	2,010,895	18,813	4,868,645	4,449,730	19,875,714
\$ 117,901	\$ 4,637,529	\$ 2,065,350	\$ 19,262	\$ 3,505,407	\$ 4,205,804	\$ 19,131,883

HEMET UNIFIED SCHOOL DISTRICT

**GENERAL FUND SELECTED FINANCIAL INFORMATION
THREE-YEAR SUMMARY OF REVENUES, EXPENDITURES, AND
CHANGES OF FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2009**

(Amounts in thousands)	Actual Results for the Years					
	2008-2009		2007-2008		2006-2007	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Amount	Percent of Revenue
REVENUES						
Federal revenue	\$ 22,190	11.1	\$ 14,550	7.3	\$ 13,962	7.2
State and local revenue included in revenue limit	127,172	63.4	129,886	65.5	126,259	65.4
Other State revenue	27,570	13.7	32,764	16.5	33,970	17.6
Other local revenue	14,389	7.2	12,070	6.1	18,914	9.8
Tuition and transfers in	9,330	4.6	9,129	4.6	-	0.0
Total Revenues	200,652	100.0	198,399	100.0	193,105	100.0
EXPENDITURES						
Salaries and Benefits						
Certificated salaries	90,149	44.9	94,581	47.7	87,505	45.3
Classified salaries	32,119	16.0	30,290	15.3	25,918	13.4
Employee benefits	39,738	19.8	39,756	20.0	35,924	18.6
Total Salaries and Benefits	162,006	80.7	164,627	83.0	149,347	77.3
Books and supplies	8,934	4.5	11,649	5.9	10,760	5.6
Contracts and operating expenses	18,902	9.4	17,700	8.9	15,343	7.9
Capital outlay	1,486	0.7	1,517	0.8	3,127	1.6
Other outgo	1,014	0.5	492	0.2	713	0.4
Total Expenditures	192,341	95.9	195,985	98.8	179,290	92.8
EXCESS OF REVENUES OVER EXPENDITURES	8,311	4.1	2,414	1.2	13,815	7.2
OTHER FINANCING SOURCES (USES)						
Incoming transfers/other sources	1,322	0.7	2,300	1.2	1,132	0.4
Outgoing transfers	(5,365)	(2.7)	(3,891)	(2.0)	(4,861)	(2.5)
Total Financing Sources (Uses)	(4,043)	(2.0)	(1,591)	0.8	(3,729)	(2.1)
INCREASE IN FUND BALANCE	4,267	2.1	823	0.4	10,086	5.0
FUND BALANCE, BEGINNING	21,688		20,865		10,779	
FUND BALANCE, ENDING	\$ 25,955		\$ 21,688		\$ 20,865	
ENDING FUND BALANCE TO TOTAL REVENUES		12.9		10.9		10.8

See accompanying note to supplementary information.

HEMET UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2009

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

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

The following schedule provides reconciliation between revenues reported on the Statement of Revenue, Expenditures and Changes in Fund Balance and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts represent Federal funds that have been recorded as revenues that have not been expended by June 30, 2009. The unspent balances are reported as legally restricted ending balances within the General Fund.

Description	CFDA Number	Amount
Total Federal Revenues Statement of Revenues, Expenditures		\$ 30,307,899
ARRA-State Fiscal Stabilization Fund	84.394	(7,574,010)
MAA Billing	93.778	(235,996)
Total Schedule of Expenditures of Federal Awards		<u>\$ 22,497,893</u>

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. 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 either the 1982-83 actual minutes or the 1986-87 requirements, whichever is greater, as required by *Education Code* Section 46201.

HEMET UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2009

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

General Fund Selected Financial Information

This schedule provides a comparison of revenues and expenditures as a percentage of total revenue for the General Fund for the past three years.

INDEPENDENT AUDITORS' REPORTS



**INDEPENDENT AUDITORS' 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 the financial statements of the governmental 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, 2009, which collectively comprise Hemet Unified School District's basic financial statements and have issued our report thereon dated December 8, 2009. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hemet Unified School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hemet Unified School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hemet Unified School District's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hemet Unified School District's financial statements are free of 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 December 8, 2009.

This report is intended solely for the information and use of the governing board, management, the California Department of Education, the State Controller's Office, Federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Vavrinek, Trine, Day & Co., LLP
Rancho Cucamonga, California
December 8, 2009



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Governing Board
Hemet Unified School District
Hemet, California

Compliance

We have audited the compliance of Hemet Unified School District (*the District*) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2009. Hemet Unified School District's major Federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of Hemet Unified School District's management. Our responsibility is to express an opinion on Hemet Unified School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about 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. Our audit does not provide a legal determination of Hemet Unified School District's compliance with those requirements.

In our opinion, Hemet Unified School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of Hemet Unified School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered Hemet Unified School District's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Hemet Unified School District's internal control over compliance.

A *control deficiency* in a district's internal control over compliance 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 noncompliance with a type of compliance requirement of a Federal program on a timely basis.

A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the District's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the governing board, management, the California Department of Education, the State Controller's Office, Federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Vavrinek, Trine, Day & Co., LLP
Rancho Cucamonga, California
December 8, 2009



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Governing Board
 Hemet Unified School District
 Hemet, California

We have audited the financial statements of the governmental 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, 2009, and have issued our report thereon dated December 8, 2009. 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 *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2008-09*, 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 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 opinions.

Compliance with the requirements of laws, regulations, contracts, and grants listed below is the responsibility of Hemet Unified School District's management. 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 in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance reporting	8	Yes
Independent study	23	Yes
Continuation education	10	Yes
Instructional Time:		
School districts	6	Yes
County offices of education	3	Not Applicable
Community day schools	3	No, see below
Instructional Materials general requirements	8	Yes, see below
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early retirement incentive	4	Not Applicable
Gann limit calculation	1	Yes
School Accountability Report Card	3	Yes

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Class Size Reduction Program (including in Charter Schools):		
General requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	Not Applicable
District or charter schools with only one school serving K-3	4	Not Applicable
After School Education and Safety Program:		
General requirements	4	Yes
After school	4	Yes
Before school	5	Not Applicable
Charter Schools:		
Contemporaneous records of attendance	1	Yes
Mode of instruction	1	Yes
Non classroom-based instruction/independent study	15	Not Applicable
Determination of funding for non classroom-based instruction	3	Not Applicable
Annual instruction minutes classroom based	3	Yes

We performed testing of procedure (a) only for Instructional Materials general requirements, as additional procedures were determined to not be required.

We did not apply procedures for Community Day Schools since the level of ADA was below the threshold required for testing.

Based on our audit, we found that for the items tested, the Hemet Unified School District complied with the State laws and regulations referred to above. Further, based on our audit, for items not tested, nothing came to our attention to indicate that the Hemet Unified School District had not complied with the laws and regulations. Our audit does not provide a legal determination on Hemet Unified School District's compliance with the State laws and regulations referred to above.

This report is intended solely for the information and use of the governing board, management, the California Department of Education, the State Controller's Office, the California Department of Finance, Federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Vavrinck, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 8, 2009

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

HEMET UNIFIED SCHOOL DISTRICT

**SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2009**

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>None reported</u>
Type of auditors' report issued on compliance for major programs:	<u>Unqualified</u>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	<u>No</u>
Identification of major programs:	

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>84.367</u>	<u>Title II, Part A - Improving Teacher Quality</u>
<u>10.553, 10.555, 10.559</u>	<u>Child Nutrition Cluster</u>
<u>93.778</u>	<u>Medicaid Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 674,937</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

Internal control over State programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>None reported</u>
Type of auditors' report issued on compliance for State programs:	<u>Unqualified</u>

HEMET UNIFIED SCHOOL DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2009**

None reported.

HEMET UNIFIED SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009**

None reported.

HEMET UNIFIED SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009**

None reported.

HEMET UNIFIED SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2009**

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



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, 2009, 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 8, 2009, on the financial statements of Hemet Unified School District.

CURRENT YEAR OBSERVATIONS AND RECOMMENDATIONS

ASSOCIATED STUDENT BODY (ASB)

Diamond Valley Middle School

Cash Receipting

Observation

It appears that the site does not provide adequate controls over cash receipts. The site is currently using (3) receipt books to receipt transactions, resulting in pre-numbered receipts not being issued consistently to account for cash collections, furthermore we found several deposits that had not been issued a receipt at all and therefore, there is no reconciliation between issued receipts and bank deposits.

Recommendation

Pre-numbered receipts should be issued for all cash collections by the ASB bookkeeper which would include a specific description of the source of the funds. The receipts issued to teachers and advisors from the bookkeeper should be totaled and reconciled to the current bank deposit.

Financial Statements

Observation

The student store monthly inventory is not recognized on the ASB financial statements; therefore the site does not appear to be aware of its year-end inventory balance.

Hemet Unified School District
Governing Board

Recommendation

The student store inventory should be listed as an individual asset on the ASB's financial statements; that would ensure the inventory is reconciled properly to the monthly inventory count.

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

Vavrinek, Trine, Day & Co., LLP
Rancho Cucamonga, California
December 8, 2009