

HEMET UNIFIED SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

JUNE 30, 2010

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, 2010, 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 2009-10*, 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, 2010, 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.

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.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2010, 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.

The required supplementary information, such as management's discussion and analysis on pages 4 through 17 and budgetary comparison and other postemployment information on pages 64 and 65, is not a required part of the basic financial statements, but is 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*, is 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.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California

November 12, 2010



Dr. Philip O. Pendley
Superintendent

Mary Wulfsberg
Deputy Superintendent

Vincent Christakos
Assistant Superintendent

LaFaye Platter
Assistant Superintendent

Dr. Sally Cathwon
Assistant Superintendent

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Governing Board

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Marilyn Forst
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This section of Hemet Unified School District's (the District) (2009-2010) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2010, with comparative information from 2009. 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.

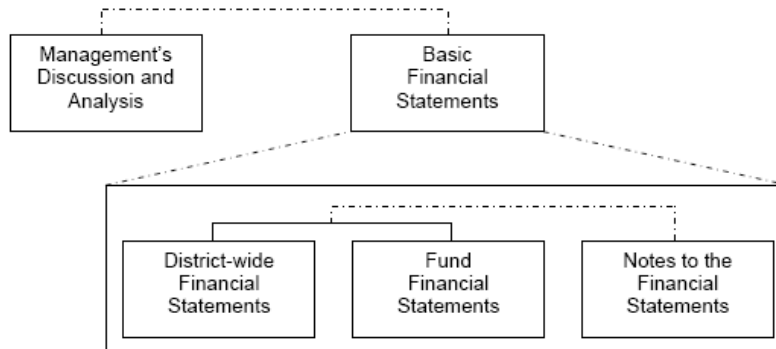
HEMET UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2010

Figure 1

Organization of Hemet Unified School District's Annual Financial Report



FINANCIAL HIGHLIGHTS OF THE PAST YEAR

- Total net assets decreased from the prior year by 2.55 % or \$7.6 million to \$292 million as a result of a combination of increased liabilities for current loans and increased unrestricted fund balances.
- Revenues and other financing sources for all governmental funds were \$214.6 million, \$1.3 million less than expenses and other financing uses.
- The audited General Fund beginning balance was reported at \$26 million compared to \$28.9 million reported in the District's financial ledgers. The audit adjustment to reduce the beginning balance in the district ledgers by \$2.9 million for ABX4 3 un-appropriated 2008-2009 State categorical funds was not required to be posted.
- The General Fund's audited ending balance increased by \$0.3 million from the prior year. The General Fund ending balance in district ledgers shows a \$2.6 million decrease. The restricted portion of the General Fund's ending fund balance decreased by \$2.2 million. The unrestricted General Fund ending balance decreased \$0.4 million.
- \$200,000 in long-term debt for capital outlay was issued in 2009-2010.
- A total of \$29,885,000 in short-term Tax Revenue Anticipation Notes (TRANS) was issued in 2009-2010 to cover cash shortfalls as a result of state apportionment cash deferrals.
- 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 2009-2010.
- The District's revenue limit funding was based on prior year average daily attendance (ADA) due to continued declining enrollment in 2009-2010. Actual P-2 ADA for 2009-2010 was reported at 20,866. Revenue limit ADA was reported at 21,524.

HEMET UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010

Figure 2 summarizes the District's Combined General Fund activities for the 2009-2010 fiscal year. As indicated in the Table, at June 30, 2010, 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	\$176,907,441	\$177,174,461	\$ 267,020
Total Expenditures	189,230,204	178,702,758	(10,527,446)
Other Financial Activities	(1,1,070,752)	(1,075,788)	(5,036)
Net Increase(Decrease)	(13,393,515)	(2,604,084)	10,789,430
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 \$109.2 million of the District's \$177.2 million General Fund revenues for the 2009-2010 fiscal year. Revenue limit as a percentage of total revenue, decreased from 64.28 % in the prior year to 61.58 % in 2009-10. As shown in Figure 3, there was a decrease of 584 ADA from the prior year ADA used for Revenue Limit Funding compared to the ADA reported for 2009-10 P-2.

Figure 3

Grade Level	P-2 ADA	Revenue Limit ADA (Prior Year)	Difference
Elementary	14,304	14,818	- 514
Secondary	6,562	6,632	- 70
Total K-12	20,866	21,450	- 584
Charter (HAAAT) (Rev Limit ADA is based on 2009/10)	191	191	-0-

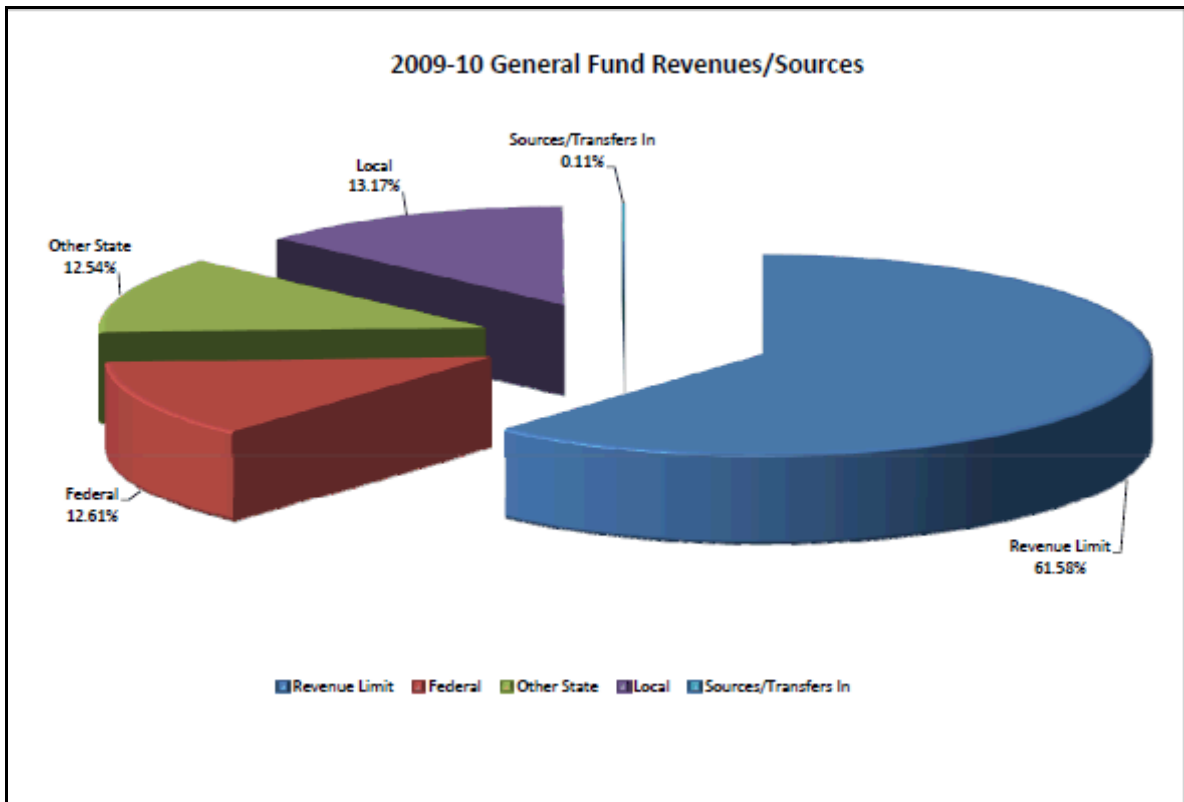
HEMET UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2010

Federal, Other State and Local Revenues

Combined General Fund Federal, other State, and local revenues at year-end were \$68 million or 0.34 % more than District's second interim projection of \$67.7 million.



EXPENDITURE SUMMARY

Salaries and Benefits

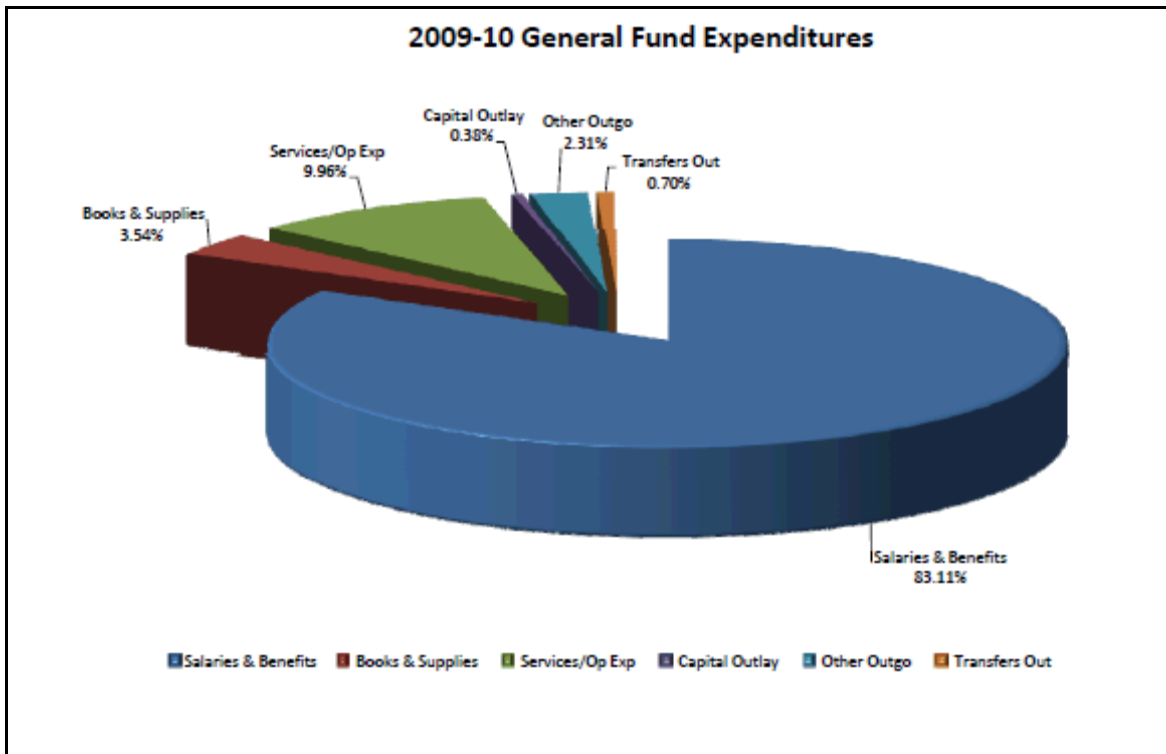
Salaries and benefits represent a growing percentage of all District expenditures. In 2009-2010 salaries and benefits accounted for 83.11 % of all expenditures. Expenditures for salaries and benefits totaled \$149.6 million and were lower than Second Interim projections by 3.04 %. The decrease in expenditures from Second Interim projections is attributed to the savings from a negotiated 2-day work year reduction for all employees that was not approved until after the Second Interim budget report was finalized. Salaries and benefits comprised 89.67 % of unrestricted expenditures and uses.

HEMET UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2010

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.



Operating Expenditures

Combined General Fund books and supplies expenses were \$3.2 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 to address on-going state funding reductions.

Services and Other Operating Expenses, which include consultants, maintenance contracts, legal fees, and utilities, ended the year at \$17.9 million, or approximately 9.20 % less than the projected amounts budgeted in the District's Second Interim report. Reduced use of consultants as well as on-going energy conservation measures account for much of variance from Second Interim projections in this category.

HEMET UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010

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, 2010

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, 2010

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets

The District's net assets were \$291,699,385 for the fiscal year ended June 30, 2010. 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	
	2010	2009
Assets		
Current and other assets	\$ 115,805,031	\$ 114,337,130
Capital assets	440,536,665	437,897,137
Total Assets	556,341,696	552,234,267
Liabilities		
Current liabilities	27,630,087	15,260,980
Long-term obligations	237,012,224	237,626,857
Total Liabilities	264,642,311	252,887,837
Net Assets		
Invested in capital assets, net of related debt	251,632,429	255,806,011
Restricted	34,140,654	30,145,077
Unrestricted	5,926,302	13,395,342
Total Net Assets	\$ 291,699,385	\$ 299,346,430

HEMET UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010

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	
	<u>2010</u>	<u>2009</u>
Revenues		
Program Revenues:		
Charges for services	\$ 9,307,772	\$ 8,231,495
Operating grants and contributions	53,358,984	46,579,162
Capital grants and contributions	1,312,366	1,500,711
General Revenues:		
Federal and State aid	100,362,984	116,173,131
Property taxes	37,700,470	45,309,469
Other general revenues	7,415,566	12,476,099
Total Revenues	<u>209,458,142</u>	<u>230,270,067</u>
Expenses		
Instruction-related	144,053,801	151,429,016
Pupil services	27,216,993	27,178,599
Administration	13,627,178	14,229,661
Plant services	20,384,598	18,730,444
Ancillary	1,675,286	2,546,743
Other	10,147,331	8,817,293
Total Expenses	<u>217,105,187</u>	<u>222,931,756</u>
Change in Net Assets	<u>\$ (7,647,045)</u>	<u>\$ 7,338,311</u>

HEMET UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2010

Governmental Activities

As reported in the *Statement of Activities* on page 19, the cost of all governmental activities in 2009-2010 was \$217,105,187. The amount that our taxpayers ultimately financed for these activities through local taxes was \$37,700,470. The remaining cost of \$9,307,772 was paid by those who benefited from the programs or by other governments and organizations who subsidized certain programs with \$54,671,350 in grants and contributions. The remaining "public benefit" portion of our governmental activities were paid with \$100,362,984 in Federal and State aid and \$7,415,566 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

	<u>Total Cost of Services</u>		<u>Total Net Cost of Services</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Instruction	\$ 121,570,640	\$ 127,659,333	\$ 94,616,492	\$ 101,720,360
Instruction-related activities	22,483,161	23,769,683	14,762,277	16,997,156
Pupil services	27,216,993	27,178,599	3,890,055	7,660,539
Administration	13,627,178	14,229,661	10,645,956	12,149,014
Plant services	20,384,598	18,730,444	19,456,049	18,296,564
Ancillary services	1,675,286	2,546,743	1,674,113	2,545,149
Other	10,147,331	8,817,293	8,081,123	7,251,606
Total	\$ 217,105,187	\$ 222,931,756	\$ 153,126,065	\$ 166,620,388

HEMET UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010

THE DISTRICT'S FUNDS

Upon completion of the 2009-2010 fiscal year, the District's governmental funds reported a combined fund balance of \$77,925,672, a decrease of \$11,349,320 from 2008-2009 (Table 4).

Table 4

	Balances and Activity			
	July 1, 2009	Revenues	Expenditures	June 30, 2010
General Fund	\$ 25,955,328	\$ 183,993,123	\$ 183,688,546	\$ 26,259,905
Building Fund	33,547,981	359,810	11,867,605	22,040,186
Bond Interest and Redemption Fund	10,639,800	9,133,037	10,188,198	9,584,639
Non-Major Governmental Funds	19,131,883	21,097,490	20,188,431	20,040,942
Total	\$ 89,274,992	\$ 214,583,460	\$ 225,932,780	\$ 77,925,672

General Fund Budgetary Highlights

Over the course of the year, the District revised the 2009-2010 budget to address changes in revenues and expenditures that were unanticipated at the time the original budget was adopted in June 2009. Mid-year adjustments to the District's budget were approved by the Board of Education on March 16, 2010, 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.

Overall General Fund revenue totals varied only slightly from amounts projected at Second Interim because there were no significant unanticipated changes in assumptions from March through June 2010.

Total final General Fund expenditures for 2009-2010 were less than anticipated at Second Interim due primarily to unexpended restricted funds, lower energy costs, and reduced use of consultants, as well as an overall spending freeze.

HEMET UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2010, the District had \$440,536,665 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 \$2,639,528 or 0.6 percent, over the prior year (Table 5).

Table 5

	Governmental Activities	
	2010	2009
Land	\$ 24,500,136	\$ 24,500,136
Construction in progress	38,096,361	165,419,109
Buildings and improvements	372,867,241	242,875,222
Equipment	5,072,927	5,102,670
Total	\$ 440,536,665	\$ 437,897,137

This year's additions totaling \$2.6 million are primarily related to the capital facilities improvement project at Hemet High School. State School funding, 2006 General Obligation Bonds, Certificates of Participation, and Community Facilities District (CFD) bonds were issued in prior years to fund the district's current capital facilities projects.

Capital projects are planned for the 2010-2011 year including continuing work on the Hemet High School 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, 2010

Long-Term Obligations

At June 30, 2010, the District had \$208,912,079 in general obligation bonds and certificates of participation outstanding compared to \$213,571,010 on June 30, 2009, a decrease of 2.18 percent. Other obligations consisted of those items listed in Table 6 below.

Table 6

	Governmental Activities	
	2010	2009
General obligation bonds	\$ 151,553,776	\$ 154,847,287
Certificates of participation	57,358,303	58,723,723
Lease revenue bonds	4,345,914	4,525,392
Capital leases	4,041,082	4,797,975
Accumulated vacation	888,477	955,365
SERP	8,482,155	5,999,890
Claims liability	2,653,745	2,792,545
Net OPEB obligation	7,688,772	4,984,680
Total	\$ 237,012,224	\$ 237,626,857

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, 2010

Table 7 lists the District's 2010-2011 budget assumptions. These assumptions were based on the most current information available to the District at the time the budget was adopted in June 2010. 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 2010-2011 budget, which includes site and department allocations for both staffing and operating budgets.

Table 7

2010-2011 Budget Assumptions

COLA	-0.390%
COLA Deficit	18.645%
Enrollment (excluding charters)	21,510
Enrollment Growth/(Decline)	(547)
ADA – Average Daily Attendance	20,259.68
ADA – Funded	20,679.80
ADA Percentage	94.0%
ADA Increase/(Decrease) – 2009-10 P2 compared to 2010-11 budget	(554.14)
Salary Increase/(Decrease) – reduced work year and salary rollbacks	(6.50%)
Step & Column % of Salaries	1.60%
Deferred/Routine Maintenance - % of Total Expenditures	2.44%
New Schools/(School Closures)	(1)
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, 2010

	Governmental Activities
ASSETS	
Deposits and investments	\$ 69,595,375
Restricted cash	4,135,827
Receivables	38,435,584
Prepaid expenses	152,823
Stores inventories	837,860
Deferred cost on issuance	2,647,562
Capital assets	
Land and construction in process	62,596,497
Other capital assets	458,467,286
Less: Accumulated depreciation	(80,527,118)
Total Capital Assets	<u>440,536,665</u>
TOTAL ASSETS	<u>556,341,696</u>
LIABILITIES	
Accounts payable	6,157,003
Interest payable	2,863,279
Deferred revenue	1,380,979
Claims liabilities	2,118,826
Current loans	15,110,000
Long-term obligations	
Current portion of long-term obligations	8,059,024
Noncurrent portion of long-term obligations	228,953,200
Total Long-Term Obligations	<u>237,012,224</u>
TOTAL LIABILITIES	<u>264,642,311</u>
NET ASSETS	
Invested in capital assets, net of related debt	251,632,429
Restricted for:	
Debt service	10,857,187
Capital projects	6,981,329
Educational programs	10,531,885
Other activities	5,770,253
Unrestricted	5,926,302
TOTAL NET ASSETS	<u>\$ 291,699,385</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, 2010

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	\$121,570,640	\$ 47,759	\$ 25,594,023	\$ 1,312,366	\$ (94,616,492)
Instruction-related activities:					
Supervision of instruction	7,110,647	2,657	6,071,440	-	(1,036,550)
Instructional library, media and technology	1,295,096	674	1,012,520	-	(281,902)
School site administration	14,077,418	2,428	631,165	-	(13,443,825)
Pupil services:					
Home-to-school transportation	8,527,917	6,766,679	1,523,119	-	(238,119)
Food services	8,933,096	1,221,242	8,505,044	-	793,190
All other pupil services	9,755,980	8,744	5,302,110	-	(4,445,126)
Administration:					
Data processing	2,303,734	12,599	72,346	-	(2,218,789)
All other administration	11,323,444	605,310	2,290,967	-	(8,427,167)
Plant services	20,384,598	52,706	875,843	-	(19,456,049)
Ancillary services	1,675,286	190	983	-	(1,674,113)
Community services	85,709	-	-	-	(85,709)
Interest on long-term obligations	9,908,894	-	-	-	(9,908,894)
Other outgo	152,728	586,784	1,479,424	-	1,913,480
Total Governmental Activities	\$217,105,187	\$ 9,307,772	\$ 53,358,984	\$ 1,312,366	(153,126,065)

General revenues and subventions:

Property taxes, levied for general purposes	26,198,178
Property taxes, levied for debt service	9,039,874
Taxes levied for other specific purposes	2,462,418
Federal and State aid not restricted to specific purposes	100,362,984
Interest and investment earnings	917,086
Transfers between agencies	830,516
Miscellaneous	5,667,964
Subtotal, General Revenues	145,479,020
Change in Net Assets	(7,647,045)
Net Assets - Beginning	299,346,430
Net Assets - Ending	\$ 291,699,385

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

HEMET UNIFIED SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2010**

	General Fund	Building Fund
ASSETS		
Deposits and investments	\$ 9,619,091	\$ 22,286,370
Restricted cash	-	-
Receivables	36,783,050	63,049
Due from other funds	963,611	497,819
Prepaid expenditures	152,823	-
Stores inventories	228,868	-
Total Assets	\$ 47,747,443	\$ 22,847,238
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	\$ 4,754,436	\$ 806,800
Due to other funds	242,123	252
Other current liabilities	15,110,000	-
Deferred revenue	1,380,979	-
Total Liabilities	21,487,538	807,052
Fund Balances:		
Reserved for:		
Revolving cash	25,000	-
Stores inventories	228,868	-
Prepaid expenditures	152,823	-
Legally restricted balances	10,531,885	-
Unreserved:		
Designated	9,713,138	22,040,186
Undesignated, reported in:		
General Fund	5,608,191	-
Special revenue funds	-	-
Debt service funds	-	-
Capital projects funds	-	-
Total Fund Balance	26,259,905	22,040,186
Total Liabilities and Fund Balances	\$ 47,747,443	\$ 22,847,238

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

Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ 9,584,639	\$ 15,312,992	\$ 56,803,092
-	4,135,827	4,135,827
-	1,558,482	38,404,581
-	473,267	1,934,697
-	-	152,823
-	608,992	837,860
<u>\$ 9,584,639</u>	<u>\$ 22,089,560</u>	<u>\$ 102,268,880</u>

\$ -	\$ 365,126	\$ 5,926,362
-	1,683,492	1,925,867
-	-	15,110,000
-	-	1,380,979
<u>-</u>	<u>2,048,618</u>	<u>24,343,208</u>

-	-	25,000
-	608,992	837,860
-	-	152,823
-	-	10,531,885
-	9,658,302	41,411,626
-	-	5,608,191
-	85,322	85,322
9,584,639	4,135,827	13,720,466
-	5,552,499	5,552,499
<u>9,584,639</u>	<u>20,040,942</u>	<u>77,925,672</u>
<u>\$ 9,584,639</u>	<u>\$ 22,089,560</u>	<u>\$ 102,268,880</u>

HEMET UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS JUNE 30, 2010

Total Fund Balance - Governmental Funds	\$ 77,925,672
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:	\$ 521,063,783
Accumulated depreciation is:	<u>(80,527,118)</u>
Net Capital Assets	440,536,665
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.	
	2,647,562
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.	
	(2,863,279)
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:	
	7,811,244
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	149,875,000
Premium on issuance, net of amortization	1,678,776
Certificates of participation	57,487,340
Discount on issuance, net of amortization	(129,037)
Lease revenue bonds	4,355,000
Discount on issuance, net of amortization	(9,086)
Capital lease obligations	4,041,082
Compensated absences - accumulated vacation	888,477
Supplemental early retirement program	8,482,155
Net OPEB obligation	<u>7,688,772</u>
Total Long-Term Obligations	<u>(234,358,479)</u>
Total Net Assets - Governmental Activities	<u><u>\$ 291,699,385</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, 2010

	General Fund	Building Fund
REVENUES		
Revenue limit sources	\$ 109,222,027	\$ -
Federal sources	22,358,513	-
Other State sources	27,731,628	-
Other local sources	24,494,645	354,278
Total Revenues	183,806,813	354,278
EXPENDITURES		
Current		
Instruction	110,085,495	-
Instruction-related activities:		
Supervision of instruction	6,848,655	-
Instructional library, media and technology	1,265,921	-
School site administration	12,928,091	-
Pupil services:		
Home-to-school transportation	8,363,152	-
Food services	45,094	-
All other pupil services	9,666,324	-
Administration:		
Data processing	2,282,639	-
All other administration	7,726,362	-
Plant services	16,460,068	551
Facility acquisition and construction	131,161	11,867,054
Ancillary services	1,675,286	-
Community services	85,709	-
Other outgo	6,141	-
Debt service		
Principal	1,014,274	-
Interest and other	626,131	-
Total Expenditures	179,210,503	11,867,605
Excess of Revenues Over Expenditures	4,596,310	(11,513,327)
OTHER FINANCING SOURCE (USES)		
Transfers in	141,258	3,456
Other sources	45,052	2,076
Transfers out	(4,478,043)	-
Net Financing Sources (Uses)	(4,291,733)	5,532
NET CHANGE IN FUND BALANCES	304,577	(11,507,795)
Fund Balance - Beginning	25,955,328	33,547,981
Fund Balance - Ending	\$ 26,259,905	\$ 22,040,186

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

Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ 1,080,576	\$ 110,302,603
-	8,849,145	31,207,658
156,798	3,435,654	31,324,080
8,976,239	2,877,835	36,702,997
<u>9,133,037</u>	<u>16,243,210</u>	<u>209,537,338</u>
-	2,010,320	112,095,815
-	214,113	7,062,768
-	-	1,265,921
-	650,941	13,579,032
-	-	8,363,152
-	8,446,251	8,491,345
-	115,727	9,782,051
-	6,985	2,289,624
-	543,376	8,269,738
-	1,500,460	17,961,079
-	2,203,145	14,201,360
-	-	1,675,286
-	-	85,709
-	146,587	152,728
3,230,000	1,451,324	5,695,598
6,958,198	2,378,251	9,962,580
<u>10,188,198</u>	<u>19,667,480</u>	<u>220,933,786</u>
<u>(1,055,161)</u>	<u>(3,424,270)</u>	<u>(11,396,448)</u>
-	4,854,280	4,998,994
-	-	47,128
-	(520,951)	(4,998,994)
-	4,333,329	47,128
(1,055,161)	909,059	(11,349,320)
10,639,800	19,131,883	89,274,992
<u>\$ 9,584,639</u>	<u>\$ 20,040,942</u>	<u>\$ 77,925,672</u>

HEMET UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2010

Total Net Change in Fund Balances - Governmental Funds		\$(11,349,320)
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 outlay exceeded depreciation in the period.		
Capital outlays	\$12,320,171	
Depreciation expense	<u>(9,618,970)</u>	
Net Expense Adjustment		2,701,201
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.		(61,673)
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		(207,606)
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 \$2,482,265. Vacation used was more than amounts earned by \$66,888.		(2,415,377)
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 \$2,704,092.		(2,704,092)
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		3,230,000
Certificates of participation		1,370,665
Lease revenue bonds		180,000
Capital lease obligations		964,499

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, 2010

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.

61,210

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.

640,538

Change in Net Assets of Governmental Activities

\$ (7,647,045)

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, 2010**

	Governmental Activities <u>Internal Service Fund</u>
ASSETS	
Current Assets	
Deposits and investments	\$ 12,792,283
Receivables	31,003
Due from other funds	4,505
Total Assets	<u>12,827,791</u>
LIABILITIES	
Current Liabilities	
Accounts payable	230,641
Due to other funds	13,335
Claims liability	2,118,826
Total Current Liabilities	<u>2,362,802</u>
Noncurrent Liabilities	
Long term IBNR	2,653,745
Total Liabilities	<u>5,016,547</u>
NET ASSETS	
Unrestricted	7,811,244
Total Net Assets	<u>\$ 7,811,244</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, 2010**

	Governmental Activities Internal Service Fund
OPERATING REVENUES	
Charges to other funds and miscellaneous revenues	\$ 16,484,265
OPERATING EXPENSES	
Professional and contract services	15,982,236
Supplies and materials	4,446
Total Operating Expenses	<u>15,986,682</u>
Operating Income	<u>497,583</u>
NONOPERATING REVENUES	
Interest income	<u>142,955</u>
Change in Net Assets	640,538
Total Net Assets - Beginning	<u>7,170,706</u>
Total Net Assets - Ending	<u><u>\$ 7,811,244</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, 2010**

	Governmental Activities
	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from customers	\$ 16,494,057
Cash payments to suppliers for goods and services	(4,446)
Other operating cash payments	(15,340,077)
Net Cash Provided by Operating Activities	<u>1,149,534</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>203,615</u>
Net Cash Provided by Investing Activities	<u>203,615</u>
Net Increase in Cash and Cash Equivalents	1,353,149
Cash and Cash Equivalents - Beginning	<u>11,439,134</u>
Cash and Cash Equivalents - Ending	<u><u>\$ 12,792,283</u></u>
RECONCILIATION OF OPERATING GAIN TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	\$ 497,583
Changes in assets and liabilities:	
Due from other funds	9,792
Accounts payable	128,595
Due to other funds	12,215
Claims liabilities	501,349
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 1,149,534</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, 2010**

	Agency Funds		
	Debt Service	Associated	Total
	Fund for Special Tax Bonds	Student Bodies	Agency Funds
ASSETS			
Deposits and investments	\$ 5,298,386	\$ 1,056,455	\$ 6,354,841
Receivables	-	1,490	1,490
Stores inventories	-	37,695	37,695
Total Assets	\$ 5,298,386	\$ 1,095,640	\$ 6,394,026
LIABILITIES			
Due to student groups	\$ -	\$ 1,095,640	\$ 1,095,640
Due to bond holders	5,298,386	-	5,298,386
Total Liabilities	\$ 5,298,386	\$ 1,095,640	\$ 6,394,026

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

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

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, 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, 2010

Other Related Entity

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

- Southern California Regional Liability Excess Fund (So Cal ReLIEF)

Basis of Presentation - Fund Accounting

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

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

Major Governmental Funds

General Fund The General Fund is the chief operating fund for all districts. It is used to account for the ordinary operations of 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.

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

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, except for State revenues which, as a result of Senate Bill 4 of the 2009-10 Third Extraordinary Session (SBX3 4), may be used for any educational purpose

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, except for State apportionments which, as a result of Senate Bill 4 of the 2009-10 Third Extraordinary Session (SBX3 4), may be used for any educational purpose.

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).

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

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:

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.

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

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.

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.

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

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.

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.

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Investments

Investments held at June 30, 2010, 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.

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.

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Interfund Balances

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

Compensated Absences

Compensated absences are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide statement of net 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.

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.

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

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, 2010. 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 \$34,140,654 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.

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.

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

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.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2010, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 69,595,375
Restricted cash	4,135,827
Fiduciary funds	6,354,841
Total Deposits and Investments	<u>\$ 80,086,043</u>

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

Deposits and investments as of June 30, 2010, consist of the following:

Cash on hand and in banks	\$ 11,030,077
Cash in revolving	25,000
Investments	<u>69,030,966</u>
Total Deposits and Investments	<u><u>\$ 80,086,043</u></u>

Policies and Practices

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

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

General Authorizations

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

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

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

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.

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
Federal Home Loan Banks	\$ 3,367,125	3/8/2013
Riverside County Investment Pool	62,067,628	372*
AIG Matched Funding Corp. Investment Agreement	1,567,784	9/28/2032
Federal Home Loan Mortgage Corp. - MTN	1,085,269	4/11/2013
Federal National Mortgage Association - MTN	1,077,362	3/30/2012
Total	<u>\$ 69,165,168</u>	

* 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, the county pool received an Aaa/MR1 rating and all other investments received an Aaa rating from Moody's Investor Services. The Investment Agreements were not rated.

Investment Type	Minimum Legal Rating	Rating as of June 30, 2010	Fair Value
Federal Home Loan Banks	AA	Aaa	\$ 3,367,125
Riverside County Investment Pool	Not Required	Aaa/MR1	62,067,628
AIG Matched Funding Corp. Investment Agreement	Not Required	Not Required	1,567,784
Federal Home Loan Mortgage Corp. - MTN	AA	Aaa	1,085,269
Federal National Mortgage Association - MTN	AA	Aaa	1,077,362
Total			<u>\$ 69,165,168</u>

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

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, 2010, the District's bank balance of \$5,363,649 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2010, 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	Internal Service Fund	Total	Agency Fund
Federal Government						
Categorical aid	\$ 4,981,068	\$ -	\$ 448,303	\$ -	\$ 5,429,371	\$ -
State Government						
Apportionment	19,733,831	-	255,146	-	19,988,977	-
Categorical aid	1,366,674	-	115,443	-	1,482,117	-
Lottery	680,596	-	5,030	-	685,626	-
Local Government						
Interest	83,501	60,085	18,378	30,807	192,771	-
Other Local Sources	9,937,380	2,964	716,182	196	10,656,722	1,490
Total	<u>\$36,783,050</u>	<u>\$ 63,049</u>	<u>\$ 1,558,482</u>	<u>\$ 31,003</u>	<u>\$38,435,584</u>	<u>\$ 1,490</u>

HEMET UNIFIED SCHOOL DISTRICT

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

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

	Balance July 1, 2009	Additions	Deductions	Balance June 30, 2010
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 24,500,136	\$ -	\$ -	\$ 24,500,136
Construction in progress	165,419,109	12,127,567	139,450,315	38,096,361
Total Capital Assets Not Being Depreciated	<u>189,919,245</u>	<u>12,127,567</u>	<u>139,450,315</u>	<u>62,596,497</u>
Capital Assets Being Depreciated				
Buildings and improvements	305,269,348	138,769,207	111,000	443,927,555
Furniture and equipment	13,666,019	873,712	-	14,539,731
Total Capital Assets Being Depreciated	<u>318,935,367</u>	<u>139,642,919</u>	<u>111,000</u>	<u>458,467,286</u>
Total Capital Assets	<u>508,854,612</u>	<u>151,770,486</u>	<u>139,561,315</u>	<u>521,063,783</u>
Less Accumulated Depreciation				
Buildings and improvements	62,394,126	8,715,515	49,327	71,060,314
Furniture and equipment	8,563,349	903,455	-	9,466,804
Total Accumulated Depreciation	<u>70,957,475</u>	<u>9,618,970</u>	<u>49,327</u>	<u>80,527,118</u>
Governmental Activities Capital Assets, Net	<u>\$ 437,897,137</u>	<u>\$ 142,151,516</u>	<u>\$ 139,511,988</u>	<u>\$ 440,536,665</u>

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

Governmental Activities	
Instruction	\$ 7,945,256
School site administration	259,713
Food services	452,091
All other administration	567,519
Plant services	394,391
Total Depreciation Expenses Governmental Activities	<u>\$ 9,618,970</u>

HEMET UNIFIED SCHOOL DISTRICT

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

NOTE 5 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances at June 30, 2010, between major and non-major governmental funds, and internal service funds are as follows:

Due From	Due To				Total
	General Fund	Building Fund	Non-Major Governmental Funds	Internal Service Fund	
General Fund	\$ -	\$ -	\$ 950,276	\$ 13,335	\$ 963,611
Building Fund	-	-	497,819	-	497,819
Non-Major Governmental Funds	237,618	252	235,397	-	473,267
Internal Service Fund	4,505	-	-	-	4,505
Total	<u>\$ 242,123</u>	<u>\$ 252</u>	<u>\$ 1,683,492</u>	<u>\$ 13,335</u>	<u>\$ 1,939,202</u>

The balance of \$200,000 is due to the Child Development (Non-Major) Fund from the Capital Facilities (Non-Major) Fund for cash flow purposes, amount is a temporary loan set up as an accrual.

The balance of \$463,623 is due to the Building Fund from the County School Facilities (Non-Major) Fund for contractors fees.

The balance of \$198,254 is due to the Adult Education (Non-Major) Fund from the General Fund for budgeted adult education funding.

The balance of \$121,853 is due to the General Fund from the Charter School (Non-Major) Fund for special education.

The balance of \$343,156 is due to the General Fund from the Cafeteria (Non-Major) Fund for indirect costs.

The balance of \$441,530 is due to the General Fund from the Cafeteria (Non-Major) Fund for payroll 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, 2010**

Operating Transfers

Interfund transfers for the year ended June 30, 2010, consisted of the following:

Transfer To	Transfer From		Total
	General Fund	Non-Major Governmental Funds	
General Fund	\$ -	\$ 141,258	\$ 141,258
Building Fund	-	3,456	3,456
Non-Major Governmental Funds	4,478,043	376,237	4,854,280
Total	<u>\$ 4,478,043</u>	<u>\$ 520,951</u>	<u>\$ 4,998,994</u>

The General Fund transferred to the Adult Education Fund for adult education apportionment.	\$ 546,012
The General Fund transferred to the Deferred Maintenance Fund for deferred maintenance apportionment.	716,086
The General Fund transferred to the Debt Service for Blended Component Units Fund for debt service payments.	3,215,945
The Cafeteria Fund transferred to the Debt Service for Blended Component Units Fund for debt service payments.	367,126
The Capital Projects for Blended Component Units Fund transferred to Capital Facilities Fund for reimbursement of costs.	9,089
The Charter School Fund transferred to the General Fund for charter related special education expenses per MOU.	121,853
The Special Reserve Fund for Other than Capital Outlay Projects transferred to the General Fund to close out the fund.	19,405
The County School Facilities Fund transferred to the Building Fund to for reimbursement of costs.	3,456
The Debt Service For Blended Component Units Fund transferred to the Capital Projects For Blended Component Units Fund for reimbursement of costs.	22
Total	<u>\$ 4,998,994</u>

HEMET UNIFIED SCHOOL DISTRICT

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

NOTE 6 - ACCOUNTS PAYABLE

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

	General Fund	Building Fund	Non-Major Governmental Funds	Internal Service Fund	Total
Vendor payables	\$ 2,037,211	\$ 36,395	\$ 297,364	\$ 230,641	\$ 2,601,611
State apportionment	2,411,339	-	35,287	-	2,446,626
Salaries and benefits	305,886	-	26,477	-	332,363
Construction	-	770,405	5,998	-	776,403
Claims liability	-	-	-	2,118,826	2,118,826
Total	<u>\$ 4,754,436</u>	<u>\$ 806,800</u>	<u>\$ 365,126</u>	<u>\$ 2,349,467</u>	<u>\$ 8,275,829</u>

NOTE 7 - DEFERRED REVENUE

Deferred revenue at June 30, 2010, consists of the following:

	General Fund
Federal financial assistance	\$ 1,257,577
State categorical aid	110,590
Other local	12,812
Total	<u>\$ 1,380,979</u>

NOTE 8 - TAX AND REVENUE ANTICIPATION NOTES (TRANS)

On July 1, 2009 and April 27, 2010, the District issued \$14,775,000 and \$15,110,000 of Tax and Revenue Anticipation Notes, respectively. The notes were issued to supplement cash flows. By May 2010, the District had placed 100 percent of principal and interest in an irrevocable trust for the sole purpose of satisfying the notes issued on July 1, 2009. The District was not required to make any additional payments on the notes. The District will make payments to an irrevocable trust for the sole purpose of satisfying the April 27, 2010 mid-year notes beginning July 2010.

Issue Date	Rate	Maturity Date	Outstanding July 1, 2009	Additions	Payments	Outstanding June 30, 2010
7/1/2009	2.50%	7/1/2010	\$ -	\$ 14,775,000	\$ 14,775,000	\$ -
4/27/2010	2.50%	9/30/2010	-	15,110,000	-	15,110,000
			<u>\$ -</u>	<u>\$ 29,885,000</u>	<u>\$ 14,775,000</u>	<u>\$ 15,110,000</u>

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

A schedule of changes in long-term obligations for the year ended June 30, 2010, is shown below:

	Balance July 1, 2009	Additions	Deductions	Balance June 30, 2010	Due in One Year
General Obligation Bonds	\$153,105,000	\$ -	\$ 3,230,000	\$ 149,875,000	\$ 3,475,000
Premium on issuance	1,742,287	-	63,511	1,678,776	63,511
Certificates of Participation	58,858,005	-	1,370,665	57,487,340	1,240,665
Discount on issuance	(134,282)	-	(5,245)	(129,037)	5,245
Lease Revenue Bonds	4,535,000	-	180,000	4,355,000	185,000
Discount on issuance	(9,608)	-	(522)	(9,086)	522
Capital Leases	4,797,975	207,606	964,499	4,041,082	1,003,618
Accumulated Vacation - net	955,365	-	66,888	888,477	-
Supplemental Early Retirement Program	5,999,890	3,806,440	1,324,175	8,482,155	2,085,463
Claims Liability	2,792,545	-	138,800	2,653,745	-
Net OPEB Obligation	4,984,680	3,990,980	1,286,888	7,688,772	-
Total	<u>\$ 237,626,857</u>	<u>\$ 8,005,026</u>	<u>\$ 8,619,659</u>	<u>\$ 237,012,224</u>	<u>\$ 8,059,024</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, 2009	Issued	Redeemed	Bonds Outstanding June 30, 2010
6/6/02	8/1/26	2.50% - 5.38%	\$ 23,000,000	\$ 19,585,000	\$ -	\$ 695,000	\$ 18,890,000
6/4/03	8/1/27	2.75% - 5.50%	15,000,000	13,085,000	-	455,000	12,630,000
5/26/04	8/1/28	4.00% - 5.00%	10,000,000	9,130,000	-	280,000	8,850,000
5/18/05	8/1/29	3.50% - 5.00%	6,000,000	5,595,000	-	165,000	5,430,000
1/17/06	8/1/30	4.00% - 6.50%	6,000,000	5,810,000	-	160,000	5,650,000
3/1/07	8/1/37	4.00% - 5.75%	60,000,000	59,900,000	-	930,000	58,970,000
3/4/08	8/1/38	4.50% - 5.25%	40,000,000	40,000,000	-	545,000	39,455,000
			<u>\$160,000,000</u>	<u>\$153,105,000</u>	<u>\$ -</u>	<u>\$ 3,230,000</u>	<u>\$149,875,000</u>

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

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, 2010, the principal balance outstanding was \$18,890,000.

The bonds mature through 2027 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	890,000	763,619	1,653,619
2016-2020	5,160,000	3,144,713	8,304,713
2021-2025	6,565,000	1,715,018	8,280,018
2026-2027	3,120,000	169,850	3,289,850
Total	<u>\$ 18,890,000</u>	<u>\$ 9,183,643</u>	<u>\$ 28,073,643</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, 2010, the principal balance outstanding was \$12,630,000.

The bonds mature through 2028 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	560,000	414,077	974,077
2016-2020	3,205,000	1,749,570	4,954,570
2021-2025	3,990,000	1,043,158	5,033,158
2026-2028	2,860,000	186,150	3,046,150
Total	<u>\$ 12,630,000</u>	<u>\$ 5,216,572</u>	<u>\$ 17,846,572</u>

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

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 four to five percent. At June 30, 2010, the principal balance outstanding was \$8,850,000.

The bonds mature through 2029 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	360,000	354,673	714,673
2016-2020	2,050,000	1,518,939	3,568,939
2021-2025	2,580,000	979,222	3,559,222
2026-2029	2,590,000	267,000	2,857,000
Total	<u>\$ 8,850,000</u>	<u>\$ 4,686,895</u>	<u>\$ 13,536,895</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, 2010, the principal balance outstanding was \$5,430,000 and unamortized premium and issuance costs were \$55,324 and \$55,324, 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>
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	205,000	191,567	396,567
2016-2020	1,195,000	821,838	2,016,838
2021-2025	1,460,000	553,697	2,013,697
2026-2030	1,810,000	203,665	2,013,665
Total	<u>\$ 5,430,000</u>	<u>\$ 2,609,700</u>	<u>\$ 8,039,700</u>

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

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, 2010, the principal balance outstanding was \$5,650,000 and unamortized premium and issuance costs were \$78,643 and \$75,932, 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>
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	200,000	201,500	401,500
2016-2020	1,130,000	878,500	2,008,500
2021-2025	1,420,000	622,669	2,042,669
2026-2030	1,775,000	286,819	2,061,819
2031	405,000	8,860	413,860
Total	<u>\$ 5,650,000</u>	<u>\$ 2,884,098</u>	<u>\$ 8,534,098</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, 2010, the principal balance outstanding was \$58,970,000 and unamortized premium and issuance costs were \$932,690 and \$572,630, 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>
2011	\$ 1,050,000	\$ 2,594,965	\$ 3,644,965
2012	1,140,000	2,551,165	3,691,165
2013	1,150,000	2,505,365	3,655,365
2014	1,220,000	2,457,965	3,677,965
2015	1,300,000	2,396,190	3,696,190
2016-2020	7,675,000	10,928,660	18,603,660
2021-2025	9,455,000	8,977,035	18,432,035
2026-2030	11,640,000	6,648,843	18,288,843
2031-2035	14,290,000	3,888,913	18,178,913
2036-2038	10,050,000	691,873	10,741,873
Total	<u>\$ 58,970,000</u>	<u>\$ 43,640,974</u>	<u>\$ 102,610,974</u>

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

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, 2010, the principal balance outstanding was \$39,455,000 and unamortized premium and issuance costs were \$612,119 and \$612,119, 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
2011	\$ 585,000	\$ 1,979,600	\$ 2,564,600
2012	615,000	1,949,600	2,564,600
2013	650,000	1,917,975	2,567,975
2014	685,000	1,884,600	2,569,600
2015	720,000	1,851,275	2,571,275
2016-2020	4,250,000	8,658,156	12,908,156
2021-2025	5,560,000	7,415,594	12,975,594
2026-2030	7,255,000	5,817,244	13,072,244
2031-2035	9,485,000	3,719,925	13,204,925
2036-2039	9,650,000	1,011,018	10,661,018
Total	<u>\$ 39,455,000</u>	<u>\$ 36,204,987</u>	<u>\$ 75,659,987</u>

Certificates of Participation Summary

Issue Date	Maturity Date	Original Issue	COP		COP	
			Outstanding July 1, 2009	Issued	Redeemed	Outstanding June 30, 2010
10/14/04	10/01/32	\$ 23,425,000	\$ 21,055,000	\$ -	\$ 670,000	\$ 20,385,000
12/13/05	12/27/20	5,000,000	4,173,005	-	275,665	3,897,340
06/13/06	10/01/36	29,445,000	29,445,000	-	-	29,445,000
11/21/07	10/01/36	4,610,000	4,185,000	-	425,000	3,760,000
		<u>\$ 62,480,000</u>	<u>\$ 58,858,005</u>	<u>\$ -</u>	<u>\$ 1,370,665</u>	<u>\$ 57,487,340</u>

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, 2010

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 were 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, 2010, the principal balance of \$20,385,000 remained outstanding.

Fiscal Year	Principal	Interest to Maturity	Total
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	790,000	761,444	1,551,444
2016-2020	4,360,000	3,294,959	7,654,959
2021-2025	5,400,000	2,243,075	7,643,075
2026-2030	5,990,000	890,662	6,880,662
2031-2033	955,000	42,665	997,665
Total	<u>\$ 20,385,000</u>	<u>\$ 10,555,837</u>	<u>\$ 30,940,837</u>

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 total expected interest to be earned in the investment account is \$865,025. As of June 30, 2010, US Bank held \$1,170,453 for payment of principal.

Year Ending June 30,	District Payment	Expected Earned Interest	Total
2011	\$ 275,665	\$ 26,546	\$ 302,211
2012	275,665	42,771	318,436
2013	275,665	51,226	326,891
2014	275,665	59,903	335,568
2015	275,665	68,827	344,492
2016-2020	1,378,325	486,415	1,864,740
2021	275,665	61,544	337,209
Total	<u>\$ 3,032,315</u>	<u>\$ 797,232</u>	<u>\$ 3,829,547</u>

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

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, 2010, the principal balance outstanding was \$29,445,000.

The certificates mature through 2037 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
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	470,000	1,098,240	1,568,240
2016-2020	3,320,000	5,150,000	8,470,000
2021-2025	4,855,000	4,341,255	9,196,255
2026-2030	7,400,000	3,202,452	10,602,452
2031-2035	10,460,000	1,134,390	11,594,390
2036-2037	1,710,000	67,430	1,777,430
Total	<u>\$ 29,445,000</u>	<u>\$ 19,541,742</u>	<u>\$ 48,986,742</u>

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, 2010, the principal balance outstanding was \$3,760,000.

The certificates mature through 2037 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
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	-	159,075	159,075
2016-2020	-	795,375	795,375
2021-2025	-	795,375	795,375
2026-2030	485,000	761,063	1,246,063
2031-2035	1,590,000	525,375	2,115,375
2036-2037	1,460,000	78,075	1,538,075
Total	<u>\$ 3,760,000</u>	<u>\$ 3,757,138</u>	<u>\$ 7,517,138</u>

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

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 (COP). The 1997 COP 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. As of June 30, 2010, the principal balance of \$4,355,000 remains outstanding.

The bonds mature through 2027 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
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	215,000	153,435	368,435
2016-2020	1,200,000	634,268	1,834,268
2021-2025	1,475,000	355,656	1,830,656
2026-2027	685,000	46,575	731,575
Total	<u>\$ 4,355,000</u>	<u>\$ 1,874,589</u>	<u>\$ 6,229,589</u>

Capital Leases

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

	Vehicles	Relocatables	Energy Management Equipment	Total
Balance, July 1, 2009	\$ 1,506,787	\$ 366,522	\$ 3,797,403	\$ 5,670,712
Additions	237,268	-	-	237,268
Payments	518,935	183,261	478,494	1,180,690
Balance, June 30, 2010	<u>\$ 1,225,120</u>	<u>\$ 183,261</u>	<u>\$ 3,318,909</u>	<u>\$ 4,727,290</u>

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2011	\$ 1,190,947
2012	731,076
2013	628,431
2014	623,431
2015	522,963
2016-2019	1,030,442
Total	<u>4,727,290</u>
Less: Amount Representing Interest	686,208
Present Value of Minimum Lease Payments	<u><u>\$ 4,041,082</u></u>

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2010, amounted to \$877,723.

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 198 employees participating in this plan and the District's obligation to those retirees as of June 30, 2010, is \$8,482,155.

Year Ending June 30,	Amount
2011	\$ 2,167,606
2012	2,167,606
2013	2,167,606
2014	1,509,362
2015	761,288
Total	<u>8,773,468</u>
Less: Amount Representing Interest	291,313
Total	<u><u>\$ 8,482,155</u></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 \$2,653,745.

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

Other Postemployment Benefit (OPEB) Obligation

The District implemented GASBS 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 required contribution (ARC) was \$3,791,593 for the year ended June 30, 2010. The District made a contribution of \$1,089,271, which was less than the actuarial estimated "pay as you go" costs. See Note 12 for additional information regarding the OPEB Obligation and the postemployment benefit plan. The OPEB obligation balance for the District at June 30, 2010, amounted to \$7,688,772.

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 \$37,140,000 as of June 30, 2010, 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	228,868	-	-	608,992	837,860
Prepaid expenditures	152,823	-	-	-	152,823
Restricted programs	10,531,885	-	-	-	10,531,885
Total Reserved	10,938,576	-	-	608,992	11,547,568
Unreserved					
Designated					
Economic uncertainties	-	-	-	1,514,466	1,514,466
Other designation	9,713,138	22,040,186	-	8,143,836	39,897,160
Total Designated	9,713,138	22,040,186	-	9,658,302	41,411,626
Undesignated	5,608,191	-	9,584,639	9,773,648	24,966,478
Total Unreserved	15,321,329	22,040,186	9,584,639	19,431,950	66,378,104
Total	\$ 26,259,905	\$ 22,040,186	\$ 9,584,639	\$ 20,040,942	\$ 77,925,672

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

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 258 retirees and beneficiaries currently receiving benefits and 2,156 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 2009-2010, the District contributed \$1,089,271 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	199,387
Adjustment to annual required contribution	(197,617)
Annual OPEB cost (expense)	<u>3,793,363</u>
Contributions made	<u>(1,089,271)</u>
Increase in net OPEB obligation	2,704,092
Net OPEB obligation, beginning of year	4,984,680
Net OPEB obligation, end of year	<u><u>\$ 7,688,772</u></u>

HEMET UNIFIED SCHOOL DISTRICT

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

Trend Information

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

Year Ended June 30,	Annual OPEB Cost	Actual Employer Contribution	Percentage Contributed	Net OPEB Obligation
2008	\$ 3,418,208	\$ 462,713	13.54%	\$ 2,955,495
2009	3,792,736	1,763,551	46.50%	2,029,185
2010	8,778,043	1,089,271	12.41%	7,688,772

Funded Status and Funding Progress

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

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%	114,166,409	26%

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.

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

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 District is exposed to various risks of loss related to torts; theft, damage and destruction of assets; errors and omissions; injuries to employees; life and health of employees; and natural disasters. The District purchases commercial insurance through Southern California Regional Liability Excess Fund Joint Powers Authority for first party damage with coverage up to a maximum of \$250 million, subject to Member Retained Limits ranging from \$250 to \$5,000 per occurrence. The District also purchases commercial insurance for general liability claims with coverage up to \$1 million per occurrence with excess liability coverage up to \$24 million per occurrence and \$52 million aggregate, all subject to a \$5,000 Member Retained Limit per occurrence. The District self insures workers' compensation coverage up to \$1,000,000 per occurrence with excess coverage up to \$10,000,000.

Claims Liabilities

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

Unpaid Claims Liabilities

The fund establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represent the changes in approximate aggregate liabilities for the District from July 1, 2008 to June 30, 2010:

	<u>Health Care</u>	<u>Workers'</u> <u>Compensation</u>
Liability Balance, July 1, 2008	\$ 2,110,000	\$ 2,628,222
Claims provision	11,790,878	991,376
Claims paid	(12,557,878)	(691,376)
Liability Balance, June 30, 2009	<u>1,343,000</u>	<u>2,928,222</u>
Claims provision	13,277,641	1,628,460
Claims paid	(13,146,641)	(1,258,111)
Liability Balance, June 30, 2010	<u>\$ 1,474,000</u>	<u>\$ 3,298,571</u>
Amount available to pay claims	<u>\$ 5,712,216</u>	<u>\$ 7,115,575</u>

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

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.

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 2009-2010 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, 2010, 2009, and 2008, were \$7,080,839, \$7,368,724, and \$7,738,334, 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.

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

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 2009-2010 was 9.709 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, 2010, 2009, and 2008, were \$3,094,599, \$3,079,453, and \$2,845,262, 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 \$3,723,689 (4.267 percent of salaries subject to CalSTRS). No contributions were made to CalPERS for the year ended June 30, 2010. 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*.

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, 2010.

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, 2010.

HEMET UNIFIED SCHOOL DISTRICT

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

Construction Commitments

As of June 30, 2010, 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	\$ 103,155	6/2011
Rancho Viejo Middle School	8,955	6/2011
Hemet High Master Plan Phase I	8,275,883	9/2013
Hemet Elementary Landscape	124,777	8/2020
Fruitvale Shade Structure	33,198	9/2010
	<u>\$ 8,545,968</u>	

NOTE 16 - PARTICIPATION JOINT POWERS AUTHORITY

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

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

During the year ended June 30, 2010, the District made payments of \$771,539 to SoCal ReLiEF, for services received.

NOTE 17 - SUBSEQUENT EVENTS

Tax Revenue Anticipation Notes

The District issued \$14,910,000 of Tax and Revenue Anticipation Notes dated July 1, 2010. The notes mature on March 1, 2011, and yield 0.750 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 January, 2011, until 100 percent of principal and interest due is on account in February, 2011.

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

General Obligation Refunding Bonds

On July 12, 2010, the District issued \$18,740,000 of 2010 General Obligation Refunding Bonds. The bonds mature on August 1, 2026, with interest yields of 0.85 to 4.70 percent. Net proceeds from the issuance will be used to refund outstanding obligations on the 2002 General Obligation Bonds, Series A originally issued in the amount of \$23,000,000.

NOTE 18 - 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 16 of the 2009-10 Fourth Extraordinary Session (SBX4 16) (Chapter 23, Statutes of 2009), 25 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.

REQUIRED SUPPLEMENTARY INFORMATION

HEMET UNIFIED SCHOOL DISTRICT

GENERAL FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		Actual (GAAP Basis)	Variances -
	(GAAP Basis)			Positive
	Original	Final		(Negative) Final to Actual
REVENUES				
Revenue limit sources	\$ 115,257,723	\$ 109,220,887	\$ 109,222,027	\$ 1,140
Federal sources	14,968,915	22,702,342	22,358,513	(343,829)
Other State sources	23,629,555	22,154,182	27,731,628	5,577,446
Other local sources	21,406,108	23,223,471	24,494,645	1,271,174
Total Revenues¹	175,262,301	177,300,882	183,806,813	6,505,931
EXPENDITURES				
Current				
Certificated salaries	86,070,097	86,352,713	85,727,178	625,535
Classified salaries	30,675,597	30,665,343	30,729,715	(64,372)
Employee benefits	34,283,216	33,420,649	36,833,035	(3,412,386)
Books and supplies	7,184,991	7,047,504	6,371,215	676,289
Services and operating expenditures	17,028,183	19,469,721	17,924,831	1,544,890
Other outgo	(283,225)	295,377	(15,876)	311,253
Debt service				
Principal	2,091,768	2,109,274	1,014,274	1,095,000
Interest	3,232,749	2,583,544	626,131	1,957,413
Total Expenditures¹	180,283,376	181,944,125	179,210,503	2,733,622
Excess (Deficiency) of Revenues Over Expenditures	(5,021,075)	(4,643,243)	4,596,310	9,239,553
Other Financing Sources (Uses)				
Transfers in	127,011	143,506	141,258	(2,248)
Other sources	-	-	45,052	45,052
Transfers out	(1,296,961)	(1,262,098)	(4,478,043)	(3,215,945)
Other uses	-	-	-	-
Net Financing Sources (Uses)	(1,169,950)	(1,118,592)	(4,291,733)	(3,173,141)
NET CHANGE IN FUND BALANCES	(6,191,025)	(5,761,835)	304,577	6,066,412
Fund Balance - Beginning	25,955,328	25,955,328	25,955,328	-
Fund Balance - Ending	\$ 19,764,303	\$ 20,193,493	\$ 26,259,905	\$ 6,066,412

¹ On behalf payments of \$3,723,689 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, 2010**

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%	114,166,409	26%

SUPPLEMENTARY INFORMATION

HEMET UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010**

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
Indian Education	84.060A	10011	\$ 13,817
WIA Adult Program - ARRA	17.258	[1]	8,342
Carl D. Perkins Vocational and Technical Education Act of 1998			
Secondary Education	84.048	14894	147,141
Passed through Riverside County Special Education Local Plan Area:			
Individuals with Disabilities Act (IDEA)			
Special Education (IDEA) Cluster:			
Basic Local Assistance Entitlement, Part B, Section 611	84.027	13379	4,286,956
Local Assistance Entitlement, Part B, Section 611 Private School ISP's	84.027	10115	10,905
Basic Local Assistance ARRA, Part B, Section 611	84.391	15003	2,863,035
Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.173	13430	86,166
Preschool Grants ARRA, Part B, Section 619	84.392	15000	89,865
Preschool Local Entitlement, Part B, Section 611 (Age 3-4-5)	84.027A	13682	197,125
Preschool Local Entitlement ARRA, Part B, Section 611	84.391	15002	113,736
Preschool Staff Development, Part B, Section 619	84.173A	13431	799
Total Special Education (IDEA) Cluster			<u>7,648,587</u>
No Child Left Behind Act (NCLB)			
Title I, Part A Cluster:			
Title I, Part A - Basic Grants Low Income and Neglected	84.010	14329	2,894,251
Title I, Part A - ARRA Basic Grants Low Income and Neglected	84.389	15005	2,666,579
Title I, Part A - Program Improvement LEA Corrective Action, Minor Performance Problems	84.010	14957	179,329
Total Title I, Part A Cluster			<u>\$ 5,740,159</u>

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

See accompanying note to supplementary information.

HEMET UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010**

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF EDUCATION			
ARRA - State Fiscal Stabilization Fund (SFSF)	84.394	25008	\$ 2,893,358
Title I, Part B - Reading First Program LEA Grants	84.357	14787	1,987,023
Title I, Part G - Advanced Placement (AP) Test Fee Reimbursement Program	84.330	14831	15,128
Title II, Part A - Improving Teacher Quality Local Grants	84.367	14341	943,134
Title II, Part D - Enhancing Education Through Technology (EETT), Formula Grants	84.318	14344	5,684
Title III - Limited English Proficient (LEP) Student Program	84.365	10084	473,393
Title III - Imigrant Education Program	84.365	14346	35,578
Title IV, Part A - Safe and Drug Free Schools and Communities, Formula Grants	84.186	14347	128,927
Title IV, Part B - 21st Century Community Learning Centers Program	84.287	14349	136,971
Title V, Part A - Innovative Education Strategies	84.298A	14354	12,312
Title V, Part B - Public Charter Schools Grant Program	84.282	14531	100,000
Title X - McKinney-Vento Homeless Children Assistant Grant	84.196	14332	<u>8,620</u>
Total U.S. Department of Education			<u>20,298,174</u>
U.S. DEPARTMENT OF AGRICULTURE			
Forest Reserve	10.665	10044	36,506
Passed through California Department of Education (CDE):			
Child Nutrition Cluster:			
Especially Needy Breakfast	10.553	13526	1,713,962
National School Lunch Program	10.555	13524	6,038,421
Summer Food Service Program	10.559	13004	70,461
Food Distribution	10.555	[1]	<u>601,221</u>
Total Child Nutrition Cluster			<u>8,424,065</u>
Child Care Food Program	10.558	13393	174,251
American Recovery and Reinvestment Act (ARRA) Equipment Assistance Grants	10.579	15006	<u>149,063</u>
Total U.S. Department of Agriculture			<u>\$ 8,783,885</u>

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

See accompanying note to supplementary information.

HEMET UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010**

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through California Department of Education:			
Child Development: Quality Improvement Activities	93.575	14867	\$ 1,766
Passed through California Department of Health Services:			
Medicaid Cluster:			
Medi-Cal Billing Option	93.778	10013	580,627
Medi-Cal Administrative Activities Program	93.778	10060	<u>1,341,384</u>
Total Medicaid Cluster			<u>1,922,011</u>
Passed through Riverside County Office of Education (RCOE):			
Head Start Cluster:			
Head Start	93.600	10016	1,024,038
Head Start - ARRA	93.708	10130	<u>57,816</u>
Total Head Start Cluster			<u>1,081,854</u>
Total U.S. Department of Health and Human Services			<u>3,005,631</u>
Total Federal Programs			<u>\$ 32,087,690</u>

See accompanying note to supplementary information.

HEMET UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2010

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, 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>
Joe Wojcik	President	2010
Lisa DeForest	Vice President	2012
Marilyn Forst	Member	2012
Gisela Gosch	Member	2010
Charlotte Jones	Member	2012
Phyllis L. Petri	Member	2010
William Sanborn	Member	2010

ADMINISTRATION

Philip O. Pendley, Ed.D.	Superintendent
Vincent Christakos	Assistant Superintendent, Business Services
Dr. Sally Cathwon	Assistant Superintendent, Educational Services
LaFaye Platter	Assistant Superintendent, Human Resources
Mary Wulfsberg	Deputy 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, 2010**

	Final Report	
	Second Period Report	Annual Report
ELEMENTARY		
Kindergarten	1,416	1,422
First through third	4,518	4,526
Fourth through sixth	4,635	4,627
Seventh and eighth	3,151	3,143
Home and hospital	4	4
Special education	580	589
Total Elementary	<u>14,304</u>	<u>14,311</u>
SECONDARY		
Regular classes	5,839	5,788
Continuation education	410	397
Home and hospital	2	3
Special education	311	313
Total Secondary	<u>6,562</u>	<u>6,501</u>
Total K-12	<u>20,866</u>	<u>20,812</u>
HAAAT CHARTER SCHOOL		
Ninth through twelfth	<u>191</u>	<u>167</u>
HAAAT CHARTER SCHOOL - Classroom Based Instruction		
Ninth through twelfth	<u>191</u>	<u>167</u>

See accompanying note to supplementary information.

HEMET UNIFIED SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME FOR THE YEAR ENDED JUNE 30, 2010

Grade Level	1982-83	Reduced	1986-87	Reduced	2009-10	Number of Days		Status
	Actual	1982-83	Minutes	1986-87	Actual	Traditional	Multitrack	
	Minutes	Minutes	Requirement	Requirement	Minutes	Calendar	Calendar	
Kindergarten	31,500	30,625	36,000	35,000	35,600	178	N/A	Complied
Grades 1 - 3	43,095	41,898	50,400	49,000				
Grade 1					51,604	178	N/A	Complied
Grade 2					51,604	178	N/A	Complied
Grade 3					51,649	178	N/A	Complied
Grades 4 - 6	51,075	49,656	54,000	52,500				
Grade 4					53,502	178	N/A	Complied
Grade 5					53,502	178	N/A	Complied
Grade 6					59,922	178	N/A	Complied
Grades 7 - 8	51,075	49,656	54,000	52,500				
Grade 7					59,922	178	N/A	Complied
Grade 8					59,922	178	N/A	Complied
Grades 9 - 12	56,022	54,466	64,800	63,000				
Grade 9					64,160	178	N/A	Complied
Grade 10					64,160	178	N/A	Complied
Grade 11					64,160	178	N/A	Complied
Grade 12					64,160	178	N/A	Complied

Hemet Academy for Applied Academics and Technology (HAAAT)

Grade Level	1982-83	Reduced	1986-87	Reduced	2009-10	Number of Days		Status
	Actual	1982-83	Minutes	1986-87	Actual	Traditional	Multitrack	
	Minutes	Minutes	Requirement	Requirement	Minutes	Calendar	Calendar	
Grades 9 - 12	*	*	64,800	62,949				
Grade 9					64,934	178	N/A	Complied
Grade 10					64,934	178	N/A	Complied
Grade 11					64,934	178	N/A	Complied
Grade 12					64,934	178	N/A	Complied

The Hemet Academy for Applied Academics and Technology was not operating in 1982-83.

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, 2010**

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2010.

See accompanying note to supplementary information.

HEMET UNIFIED SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2010

	(Budget)			
	2011 ¹	2010	2009	2008
GENERAL FUND				
Revenues	\$164,415,432	\$183,806,813	\$200,652,621	\$198,398,425
Other sources and transfers in	324,134	186,310	1,322,196	2,300,000
Total Revenues and Other Sources	164,739,566	183,993,123	201,974,817	200,698,425
Expenditures	167,404,208	179,210,503	192,342,034	195,985,204
Other uses and transfers out	1,230,000	4,478,043	5,365,393	3,890,668
Total Expenditures and Other Uses	168,634,208	183,688,546	197,707,427	199,875,872
INCREASE (DECREASE) IN FUND BALANCE	\$ (3,894,642)	\$ 304,577	\$ 4,267,390	\$ 822,553
ENDING FUND BALANCE	\$ 22,365,263	\$ 26,259,905	\$ 25,955,328	\$ 21,687,938
AVAILABLE RESERVES ²	\$ 8,830,512	\$ 5,608,191	\$ 5,901,141	\$ 5,876,490
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO ³	5.24%	3.12%	3.05%	3.00%
LONG-TERM OBLIGATIONS	N/A	\$237,012,224	\$237,626,857	\$235,255,102
K-12 AVERAGE DAILY ATTENDANCE AT P-2 ⁴	20,380	20,866	21,572	22,020

The General Fund balance has increased by \$4,571,967 over the past two years. The fiscal year 2010-2011 budget projects a decrease of \$3,894,642 (14.83 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 and anticipates incurring an operating deficit during the 2010-2011 fiscal year. Total long-term obligations have increased by \$1,757,122 over the past two years.

Average daily attendance has decreased by 1,154 over the past two years. Additional decline of 486 ADA is anticipated during fiscal year 2010-2011.

¹ Budget 2011 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.

³ On behalf payments of \$3,723,689, \$4,134,905, and \$4,326,438 have been excluded from the calculation of available reserves for the fiscal years ending June 30, 2010, 2009, and 2008.

⁴ Excludes Charter School ADA.

See accompanying note to supplementary information.

HEMET UNIFIED SCHOOL DISTRICT

**SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2010**

<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, 2010**

	Charter Schools Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
ASSETS					
Deposits and investments	\$ 189,987	\$ 247,702	\$ 136,250	\$ 3,799,126	\$ 1,162,792
Restricted cash	-	-	-	-	-
Receivables	318,121	3,275	116,221	442,577	3,046
Due from other funds	15,880	198,378	24,117	34,640	-
Stores inventories	-	-	-	608,992	-
Total Assets	\$ 523,988	\$ 449,355	\$ 276,588	\$ 4,885,335	\$ 1,165,838
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 123,174	\$ 2,782	\$ 28,972	\$ 168,953	\$ 33,872
Due to other funds	121,900	548	242,399	808,251	-
Total Liabilities	245,074	3,330	271,371	977,204	33,872
Fund Balances:					
Reserved for:					
Stores inventories	-	-	-	608,992	-
Unreserved:					
Designated	198,809	446,025	-	3,299,139	1,131,966
Undesignated, reported in:					
Special revenue funds	80,105	-	5,217	-	-
Debt service funds	-	-	-	-	-
Capital projects funds	-	-	-	-	-
Total Fund Balance	278,914	446,025	5,217	3,908,131	1,131,966
Total Liabilities and Fund Balances	\$ 523,988	\$ 449,355	\$ 276,588	\$ 4,885,335	\$ 1,165,838

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
\$ 121,051	\$ 3,611,158	\$ 2,584,019	\$ -	\$ 3,460,907	\$ -	\$ 15,312,992
-	-	-	-	-	4,135,827	4,135,827
311	661,596	5,392	7,943	-	-	1,558,482
-	200,252	-	-	-	-	473,267
-	-	-	-	-	-	608,992
\$ 121,362	\$ 4,473,006	\$ 2,589,411	\$ 7,943	\$ 3,460,907	\$ 4,135,827	\$ 22,089,560
\$ -	\$ 7,373	\$ -	\$ -	\$ -	\$ -	\$ 365,126
-	12,575	497,819	-	-	-	1,683,492
-	19,948	497,819	-	-	-	2,048,618
-	-	-	-	-	-	608,992
121,362	4,453,058	-	7,943	-	-	9,658,302
-	-	-	-	-	-	85,322
-	-	-	-	-	4,135,827	4,135,827
-	-	2,091,592	-	3,460,907	-	5,552,499
121,362	4,453,058	2,091,592	7,943	3,460,907	4,135,827	20,040,942
\$ 121,362	\$ 4,473,006	\$ 2,589,411	\$ 7,943	\$ 3,460,907	\$ 4,135,827	\$ 22,089,560

HEMET UNIFIED SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE FOR THE YEAR ENDED JUNE 30, 2010

	Charter Schools Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
REVENUES					
Revenue limit sources	\$ 1,080,576	\$ -	\$ -	\$ -	\$ -
Federal sources	100,000	-	176,017	8,573,128	-
Other State sources	144,139	-	1,349,939	655,452	-
Other local sources	144,152	113,736	13,994	1,400,594	15,610
Total Revenues	1,468,867	113,736	1,539,950	10,629,174	15,610
EXPENDITURES					
Current					
Instruction	737,572	246,861	1,025,887	-	-
Instruction-related activities:					
Supervision of instruction	1,102	5,742	207,269	-	-
School site administration	338,154	252,773	60,014	-	-
Pupil services:					
Food services	-	-	210,731	8,235,520	-
All other pupil services	78,693	23	37,011	-	-
Administration:					
Data processing	6,985	-	-	-	-
All other administration	36,526	20,461	80,986	343,156	-
Plant services	139,256	2,759	8,672	268,829	949,301
Facility acquisition and construction	-	-	-	-	56,550
Other outgo	-	-	-	-	-
Debt service					
Principal	-	-	-	-	-
Interest and other	-	-	-	-	-
Total Expenditures	1,338,288	528,619	1,630,570	8,847,505	1,005,851
Excess (Deficiency) of Revenues					
Over Expenditures	130,579	(414,883)	(90,620)	1,781,669	(990,241)
OTHER FINANCING SOURCE (USES)					
Transfers in	-	546,012	-	-	716,086
Transfers out	(121,853)	-	-	(367,126)	-
Net Financing Sources (Uses)	(121,853)	546,012	-	(367,126)	716,086
NET CHANGE IN FUND BALANCES	8,726	131,129	(90,620)	1,414,543	(274,155)
Fund Balance - Beginning	270,188	314,896	95,837	2,493,588	1,406,121
Fund Balance - Ending	\$ 278,914	\$ 446,025	\$ 5,217	\$ 3,908,131	\$ 1,131,966

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
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,080,576
-	-	-	-	-	-	8,849,145
-	-	1,286,124	-	-	-	3,435,654
3,461	1,040,009	26,242	8,086	32,921	79,030	2,877,835
3,461	1,040,009	1,312,366	8,086	32,921	79,030	16,243,210
-	-	-	-	-	-	2,010,320
-	-	-	-	-	-	214,113
-	-	-	-	-	-	650,941
-	-	-	-	-	-	8,446,251
-	-	-	-	-	-	115,727
-	-	-	-	-	-	6,985
-	45,639	-	-	16,608	-	543,376
-	131,643	-	-	-	-	1,500,460
-	863,927	1,282,668	-	-	-	2,203,145
-	-	-	-	51,746	94,841	146,587
-	176,324	-	-	-	1,275,000	1,451,324
-	16,036	-	-	-	2,362,215	2,378,251
-	1,233,569	1,282,668	-	68,354	3,732,056	19,667,480
3,461	(193,560)	29,698	8,086	(35,433)	(3,653,026)	(3,424,270)
-	9,089	-	-	22	3,583,071	4,854,280
-	-	(3,456)	(19,405)	(9,089)	(22)	(520,951)
-	9,089	(3,456)	(19,405)	(9,067)	3,583,049	4,333,329
3,461	(184,471)	26,242	(11,319)	(44,500)	(69,977)	909,059
117,901	4,637,529	2,065,350	19,262	3,505,407	4,205,804	19,131,883
\$ 121,362	\$ 4,453,058	\$ 2,091,592	\$ 7,943	\$ 3,460,907	\$ 4,135,827	\$ 20,040,942

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, 2010

(Amounts in thousands)

	Actual Results for the Years					
	2009-2010		2008-2009		2007-2008	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Amount	Percent of Revenue
REVENUES						
Federal revenue	\$ 22,359	12.2	\$ 22,190	7.3	\$ 14,550	7.3
State and local revenue included in revenue limit	109,222	59.4	127,172	65.5	129,886	65.5
Other State revenue	27,732	15.1	27,570	16.5	32,764	16.5
Other local revenue	15,674	8.5	14,390	6.1	12,070	6.1
Tuition and transfers in	8,821	4.8	9,330	4.6	9,129	4.6
Total Revenues	183,807	100.0	200,652	100.0	198,399	100.0
EXPENDITURES						
Salaries and Benefits						
Certificated salaries	85,727	46.6	90,149	47.7	94,581	47.7
Classified salaries	30,730	16.7	32,119	15.3	30,290	15.3
Employee benefits	36,833	20.0	39,738	20.0	39,756	20.0
Total Salaries and Benefits	153,290	83.3	162,006	83.0	164,627	83.0
Books and supplies	6,371	3.5	8,934	5.9	11,649	5.9
Contracts and operating expenses	17,925	9.8	18,902	8.9	17,700	8.9
Capital outlay	685	0.4	1,486	0.8	1,517	0.8
Other outgo	939	0.5	1,013	0.2	492	0.2
Total Expenditures	179,210	97.5	192,341	98.8	195,985	98.8
EXCESS OF REVENUES OVER EXPENDITURES	4,597	2.5	8,311	1.2	2,414	1.2
OTHER FINANCING SOURCES (USES)						
Incoming transfers/other sources	186	0.1	1,321	1.2	2,300	1.2
Outgoing transfers	(4,478)	(2.4)	(5,365)	(2.0)	(3,891)	(2.0)
Total Financing Sources (Uses)	(4,292)	(2.3)	(4,043)	0.8	(1,591)	0.8
INCREASE IN FUND BALANCE	305	0.2	4,267	0.4	823	0.4
FUND BALANCE, BEGINNING	25,955		21,688		20,865	
FUND BALANCE, ENDING	\$ 26,260		\$ 25,955		\$ 21,688	
ENDING FUND BALANCE TO TOTAL REVENUES		14.3		10.9		10.9

See accompanying note to supplementary information.

HEMET UNIFIED SCHOOL DISTRICT

**NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2010**

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, 2010. The unspent balances are reported as legally restricted ending balances within the General Fund.

Description	<u>CFDA Number</u>	<u>Amount</u>
Total Federal Revenues Statement of Revenues, Expenditures		\$ 31,207,658
ARRA State Fiscal Stabilization Funds (SFSF)	84.394	1,567,558
Medi-Cal Billing Option	93.778	(687,526)
Total Schedule of Expenditures of Federal Awards		<u>\$ 32,087,690</u>

Subrecipients

Of the Federal expenditures presented in the schedule, the District provided Federal awards to subrecipients as follows:

<u>Federal Grantor/Pass-Through Grantor/Program</u>	<u>CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Title I, Part A - Basic Grants Low Income and Neglected	84.010	<u>\$ 6,949</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.

HEMET UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2010

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.

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, 2010, which collectively comprise Hemet Unified School District's basic financial statements and have issued our report thereon dated November 12, 2010. 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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 November 12, 2010.

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

November 12, 2010



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AN MATERIAL
EFFECT ON 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 could have a direct an material effect on each of its major Federal programs for the year ended June 30, 2010. 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 compliance requirements referred to above that could have a direct an material effect on each of its major Federal programs for the year ended June 30, 2010.

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 to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Hemet Unified School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis.

A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis.

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 deficiencies, 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
November 12, 2010



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, 2010, and have issued our report thereon dated November 12, 2010. 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 2009-10*, 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
Kindergarten continuance	3	Yes
Independent study	23	Yes
Continuation education	10	Yes
Instructional Time:		
School districts	6	Yes
County offices of education	3	Not Applicable
Instructional Materials:		
General requirements	8	Yes
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
Public hearing requirement - receipt of funds	1	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

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.

Vavrinek, Trine, Day + Co., LLP

Rancho Cucamonga, California

November 12, 2010

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

HEMET UNIFIED SCHOOL DISTRICT

**SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2010**

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

Internal control over major programs:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<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 Section .510(a) of OMB Circular A-133?	<u>No</u>
Identification of major programs:	

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.027, 84.173, 84.391 <u>(ARRA), and 84.392 (ARRA)</u>	<u>Special Education (IDEA) Cluster</u> <u>(Including ARRA)</u>
<u>84.010 and 84.389 (ARRA)</u>	<u>Title I, Part A Cluster (Including ARRA)</u>
<u>84.357</u>	<u>Title I, Part B - Reading First Program</u>
<u>84.394 (ARRA)</u>	<u>ARRA - State Fiscal Stabilization Fund</u>
<u>93.778</u>	<u>Medicaid Cluster</u>
<u>93.600 and 93.708 (ARRA)</u>	<u>Head Start Cluster (Including ARRA)</u>
<u>10.579 (ARRA)</u>	<u>American Recovery and Reinvestment Act</u> <u>(ARRA) Equipment Assistance Grants</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 962,631</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

Internal control over State programs:	
Material weakness identified?	<u>No</u>
Significant deficiencies identified?	<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, 2010**

None reported.

HEMET UNIFIED SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

None reported.

HEMET UNIFIED SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

None reported.

HEMET UNIFIED SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2010**

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, 2010, 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 November 12, 2010, on the financial statements of Hemet Unified School District.

DISTRICT

Nutritional Services - Bank Reconciliations

Observation

In reviewing the monthly bank reconciliation we noted that the reconciliation is not being reviewed by anyone other than the person preparing the reconciliation. One of the purposes of performing a monthly bank reconciliation is to help ensure that no errors have occurred in the banks' posting of transactions and that the District's monthly activity is accurately reported.

Recommendation

The District should strengthen controls by ensuring that the bank reconciliation is reviewed, signed, and dated by someone independent of the cash receipting process. This helps to limit the likelihood of fraudulent activity along with helping to ensure that information is accurate.

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 three receipt books to record 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

Prenumbered 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.

Hemet High School, Rancho Viejo Middle School, Tahquitz High School - Stale Dated Checks

Observation

In reviewing the sites outstanding check listing for the November reconciliation, we noted that numerous checks which were dated as far back as February 2008 in the Bank of Hemet ASB (Checking) account and as far back as August 2003 in the Bank of Hemet (Scholarship) account, making the probability of them clearing the account quite low.

Recommendation

Outstanding checks over 12 months old should be credited back to the appropriate account and taken off the subsequent bank reconciliation. Although the chances are low, the check may clear on a subsequent bank statement. In this case, the amount should be charged against the appropriate account and described as "outstanding check written off-cleared".

Observation

In reviewing the sites outstanding check listing for the June reconciliation, we noted a check was dated as far back as September 2008 in the Bank of Hemet ASB (Checking) account, making the probability of it clearing the account quite low.

Recommendation

Outstanding checks over 12 months old should be credited back to the appropriate account and taken off the subsequent bank reconciliation. Although the chances are low, the check may clear on a subsequent bank statement. In this case, the amount should be charged against the appropriate account and described as "outstanding check written off-cleared".

Observation

In reviewing the outstanding check listing for the June reconciliation, we noted numerous checks which were dated as far back as December 2007 in the Bank of Hemet ASB (Checking) account, making the probability of them clearing the account quite low.

Recommendation

Outstanding checks over 12 months old should be credited back to the appropriate account and taken off the subsequent bank reconciliation. Although the chances are low, the check may clear on a subsequent bank statement. In this case, the amount should be charged against the appropriate account and described as "outstanding check written off-cleared".

Hamilton High School, Hemet High School, West Valley High School - Deficit Account Balances

Observation

In reviewing the financial statements for the student body accounts we noted that there were some negative club account balances. Since the student body accounts represent individual portions of the cash and asset pool, by some having negative balances, they have in actuality spent the available funds of other accounts. A key control in any internal control system is the control of expenditures by ensuring the expenditure is allowable and that the account requesting the expenditure has the funds to cover it. This control feature has not been sufficiently followed.

Recommendation

The site bookkeeper has a fiduciary responsibility to all student body organizations to act in each group's best interest. By allowing certain clubs to spend in excess of their available reserves, the bookkeeper is not meeting this responsibility to the other clubs and organizations. Request for disbursements from student groups should be reviewed for appropriateness and also to ensure that funds are available in the group's account.

Hamilton School K-8 - Reconciliation Incorrect

Observations

Errors were found when we reviewed the financial records (Balance Sheet) of the student body accounts. They are as follows:

1. The cash in the checking account balance for January 2010 did not agree to the bank statement balance. The book balance should be reconciled monthly and reported on the balance sheet.
2. Student Trust accounts are included in the assets section of the balance sheet

Recommendation

The site bookkeeper should record the reconciled book balance on the balance sheet so that the cash per the financial statements equals the cash reported by the bank. In addition, student Trust Accounts should be accounted for under the liabilities section of the balance sheet.

No Reconciliation/Statements

Observation

The monthly bank statements were not reconciled for our test month of January 2010, therefore, the site is not aware of their available cash balance or if the financial records of the clubs accurately reflect financial information. Differences between these two amounts could be caused by mispostings to the student body accounts.

Recommendation

Monthly bank reconciliation's must be done in order to ensure that the cash balance reported on the books are accurate and that the financial institution has not made a mistake. Besides reconciling the cash accounts, the balances of the student body accounts should be totaled and compared to this reconciled cash amount to ensure that the two amounts are equal.

Revenue Potentials

Observation

Revenue potential forms are not being used to document and control fund-raising activities as they occur. These forms supply an element of internal controls without which it is difficult to determine the success of a fundraiser and to track money as it is spent and received.

Recommendations

As the revenue potential form is a vital internal control tool, it should be used to document revenues, expenditures, potential revenue, and actual revenue. This allows an analysis of the fundraiser to be conducted, indicating to the staff the success or failure of the completed project. The revenue potential also indicates weak control areas in the fundraising procedures at the site, including lost or stolen merchandise, problems with collecting all moneys due and so forth. The revenue potential form used at the site should contain four major elements. These are:

1. Potential Income-This lists the selling price of the item multiplied by the number of items purchased to compute the total income that should be deposited from this fundraiser if all the items were sold and all the money was turned in. This element should also be utilized to track the cost of the items, check numbers used to purchase the items, and the purchase dates. This purchasing information is a good reference source for future sales and also tracks to cost so that profits can be determined.
2. Receipts/Fundraiser Deposits-This records all deposits turned in which are from funds generated from the sale. The receipt number issued to the advisor, date, and deposit amount should be logged. This is necessary to be able to recap the deposits of the sale and to trace these deposits to the appropriate accounts at the end of the sale to the appropriate accounts to ensure that all postings were correct.
3. Analysis-This section is used to compare the potential income as calculated in the Potential Income section to the actual funds raised as calculated in the Receipts/Fundraiser Deposits section. The difference between these two amounts should be documented and explained. The explanation can consist of merchandise not sold, merchandise lost or destroyed, or funds lost or stolen.
4. Recap-This section figures the net profit of the sale. Further fundraisers of this type can be planned or canceled depending on the information calculated in this section.

Ticket Reports and Logs

Observation

A ticket sales recap form is not prepared and submitted with the permission slips and the cash collections to the bookkeeper.

Recommendation

A ticket sales recap form serves the purpose of calculating, based on the number of students sold admission to the event and the price per ticket, and the amount of cash that should have been collected. The recap should be reconciled to the cash deposit forwarded to the bookkeeper. This procedure documents overages and shortages of cash and informs site personnel about potential problems in cash collections. The forms should be filed along with the deposit form and other pertinent documents.

Cash Disbursements

Observations

In reviewing the cash disbursement procedures at the site, we noted the following deficiencies:

- Check requests contain only two of the three required approval signatures.
- Checks for disbursements are not being made in sequential order.
- Check Request Forms are approved for payment by the ASB (evident in ASB minutes) after the purchase has already been made.
- Check Request Forms are filled out after the purchase has been made.

Recommendation

The site should review the cash disbursement procedures outlined in the California Department of Education's manual titled, "*Accounting and Procedures for Student Organizations*." The manual explains that three signatures, one being a student representative, are required pursuant to California *Education Code* Section 48933(5)(b) on all disbursements from a student body account and that documents supporting a disbursement should be kept in organized files with the student body bookkeeper so that they can be easily reviewed should the need arise. In addition, writing checks for disbursements in sequential order allows the site to keep track of all checks being written out of ASB funds and allows for effective identification of missing or stolen checks. All Check Request Forms should be filled out and approved prior to purchases being made with ASB funds. Also, the ASB must approve purchases and included in ASB minutes prior to purchases being made.

Observation

The check request form used to approve purchases did not include a space for all three signatures, therefore the expenditures lacked the three required approval signatures pursuant to California *Education Code* Section 48933(5)(b). (Form only contained two signatures)

Recommendation

In order to ensure compliance with the California *Education Code*, the site should revise the request for payment form to include a space for all three required approval signatures. These signatures are District appointed representatives, an advisor, and a student representative.

Observation

Instances were noted in which the student body funds are used to purchase items that would be considered District expenses and not the responsibility of the ASB to fund (Office Depot purchase for office supplies, Projector for the multi-purpose room).

Recommendation

We recommend that site personnel comply with FCMAT guidelines regarding allowable purchases utilizing ASB funds. In addition, site personnel should make purchases that are the District's responsibility with funds allocated from the District.

Cash Receipting and Reconciling Procedures

Observation

It appears that the site does not provide adequate controls over cash receipts. Prenumbered receipts are not used to account for cash collections and therefore, there is no reconciliation between issued receipts and bank deposits.

Recommendation

Prenumbered receipts should be issued for all cash collections by teacher, advisors, and the site bookkeeper which would include a specific description of the source of the funds. A carbon copy of the receipts issued by the teachers and advisors should be forwarded with the cash to the bookkeeper as documentation that all monies collected have been turned in. The receipts issued to teachers and advisors from the bookkeeper should be totaled and reconciled to the current bank deposit. A system to mark the last receipt which corresponds to a deposit must be started in order to know which receipts are related to the current bank deposit. The basic premise of a cash receipts system is that the receipts are written at the time the cash is collected and not at the time the deposit is being made. If the receipts are written at this time, the bookkeeper would have no way of knowing if money is misplaced or has been stolen.

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

Vavrinek, Trine, Day & Co., LLP
Rancho Cucamonga, California
November 12, 2010