

HEMET UNIFIED SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

JUNE 30, 2011

HEMET UNIFIED SCHOOL DISTRICT

TABLE OF CONTENTS JUNE 30, 2011

FINANCIAL SECTION

Independent Auditors' Report	2
Management's Discussion and Analysis	4
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets	18
Statement of Activities	19
Fund Financial Statements	
Governmental Funds - Balance Sheet	20
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	21
Governmental Funds - Statement of Revenues, Expenditures, and Changes in Fund Balances	22
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	23
Proprietary Fund - Statement of Net Assets	25
Proprietary Fund - Statement of Revenues, Expenses, and Changes in Fund Net Assets	26
Proprietary Fund - Statement of Cash Flows	27
Fiduciary Funds - Statement of Net Assets	28
Notes to Financial Statements	29

REQUIRED SUPPLEMENTARY INFORMATION

General Fund - Budgetary Comparison Schedule	69
Schedule of Other Postemployment Benefits (OPEB) Funding Progress	70

SUPPLEMENTARY INFORMATION

Schedule of Expenditures of Federal Awards	72
Local Education Agency Organization Structure	75
Schedule of Average Daily Attendance	76
Schedule of Instructional Time	77
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements	79
Schedule of Financial Trends and Analysis	80
Schedule of Charter Schools	81
Combining Statements - Non-Major Governmental Funds	
Combining Balance Sheet	82
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	83
General Fund Selected Financial Information	84
Note to Supplementary Information	85

INDEPENDENT AUDITORS' REPORTS

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	88
Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	90
Report on State Compliance	92

HEMET UNIFIED SCHOOL DISTRICT

TABLE OF CONTENTS

JUNE 30, 2011

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of Auditors' Results	95
Financial Statement Findings	96
Federal Awards Findings and Questioned Costs	97
State Awards Findings and Questioned Costs	98
Summary Schedule of Prior Audit Findings	99
Management Letter	100

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, 2011, 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 2010-11*, 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, 2011, 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 accompanying financial statements reflect certain changes required as a result of the implementation of Governmental Accounting Standards Board (GASB) Statement No. 54 for the year ended June 30, 2011. These changes required a restatement to the beginning fund balance of the General Fund and the Non-Major Governmental Funds, as discussed in Note 19.

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 15, 2011, 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 69 and 70 are not a required part of the basic financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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 15, 2011



Dr. Steven A. Lowder
Superintendent

Dr. LaFaye Platter
Deputy Superintendent

Dr. Sally Cawthon
Assistant Superintendent

Vincent Christakos
Assistant Superintendent

**Professional Development
Service Center**

1791 W. Acacia Avenue
Hemet, CA 92545
(951) 765-5100
Fax: (951) 765-5115

**Professional Development
Academy**

2085 W. Acacia Avenue
Hemet, CA 92545
(951) 765-5100
Fax: (951) 765-6421

www.hemetusd.k12.ca.us

Governing Board

Paul Bakkom
Dr. Lisa DeForest
Marilyn Forst
Charlotte Jones
Bill Sanborn
Ross Valenzuela
Joe Wojcik

This section of Hemet Unified School District's (the District) (2010-2011) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2011, with comparative information from 2010. 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.

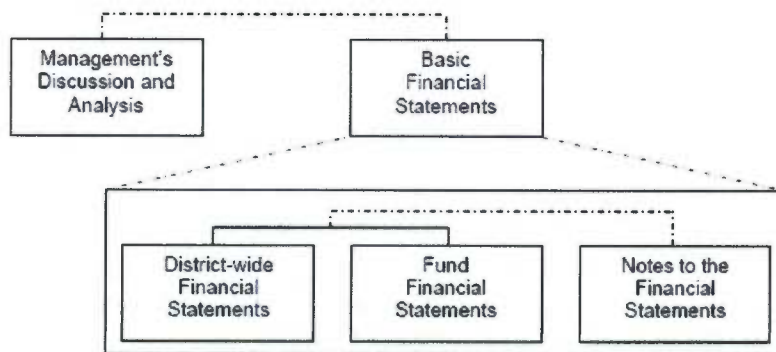
HEMET UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011

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, 2011

Figure 2 summarizes the District's Combined General Fund activities for the 2010-2011 fiscal year. As indicated in the Table, at June 30, 2011, the District's total revenues were \$1.18 million less than projected at Second Interim. The decrease in revenues is primarily attributed to unspent restricted funds that were budgeted at second interim, but were not spent by June 30th. Accounting rules for many restricted programs require that only revenues that are spent can be accounted for regardless of the award amounts. Total expenditures at year-end were less than projected due to categorical dollars that were budgeted at second interim and district spending restrictions to address state revenue deficits and cash 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	\$176,349,375	\$175,167,649	(\$1,181,726)
Total Expenditures	175,941,519	168,875,855	(7,065,664)
Other Financial Activities	<u>(283,953)</u>	<u>(415,297)</u>	<u>(131,344)</u>
Net Increase(Decrease)	<u>(\$123,903)</u>	<u>(\$ 5,876,497)</u>	<u>\$5,752,594</u>
Available Fund Balance (a)	\$ -0-	\$ -0-	\$ -0-
(a) Available after 5% reserve for EU, legally restricted and other reserved balances			

REVENUE SUMMARY

Revenue limit funding generated \$111.0 million of the District's \$175.2 million General Fund revenues for the 2010-2011 fiscal year. Revenue limit as a percentage of total revenue, increased from 61.58 percent in the prior year to 62.76 percent in 2010-2011. As shown in Figure 3, there was a decrease of 297 non-charter ADA from the prior year. Because of adjustments to prior year ADA for students transferring in and out of charter schools and other factors, the District's 2010-2011 ADA, while lower than the prior year, when calculated for revenue limit funding did not show a decline to enable it to use prior year ADA.

Figure 3

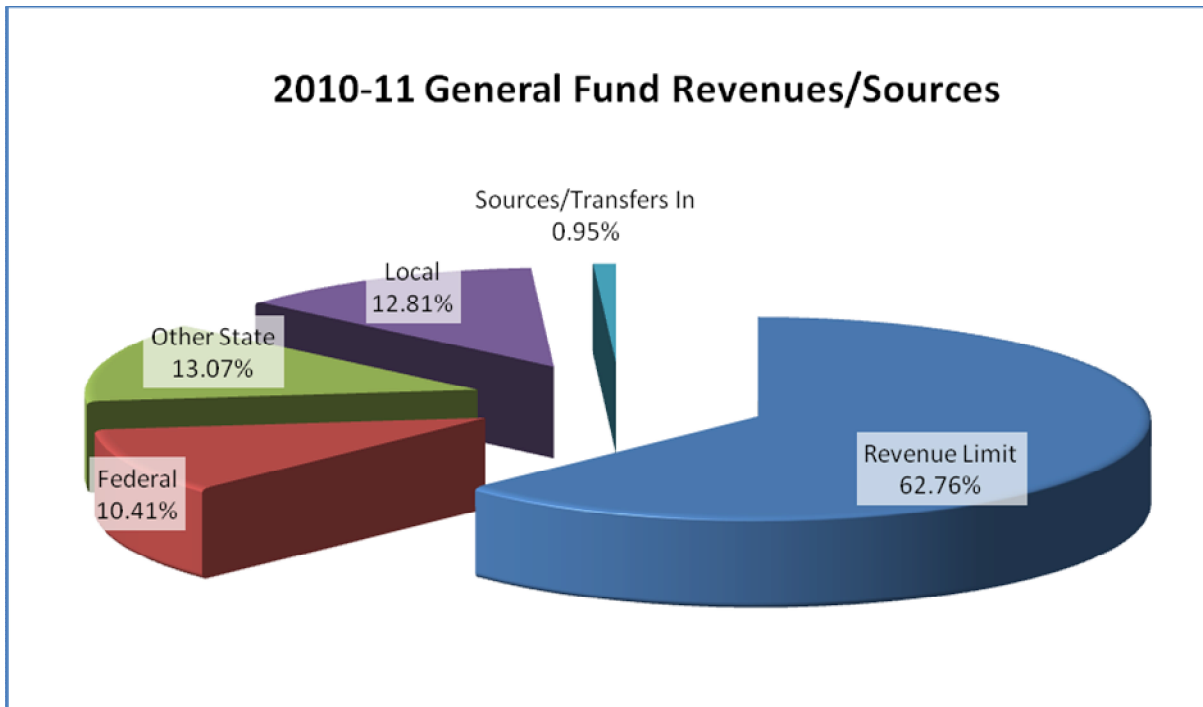
Grade Level	2009-10 P-2 ADA	2010-11 P-2 ADA	Difference
Elementary	14304	13960	- (344)
Secondary	6632	6679	- 47
Total K-12	<u>21,011</u>	<u>20,718</u>	- (297)
Charter (HAAAT) (Rev Limit ADA is based on 2009/10)	191	430	239

HEMET UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

Federal, Other State and Local Revenues

Combined General Fund Federal, other State, and local revenues at year-end were \$64.2 million or 2.24 % less than District's second interim projection of \$65.6 million.



EXPENDITURE SUMMARY

Salaries and Benefits

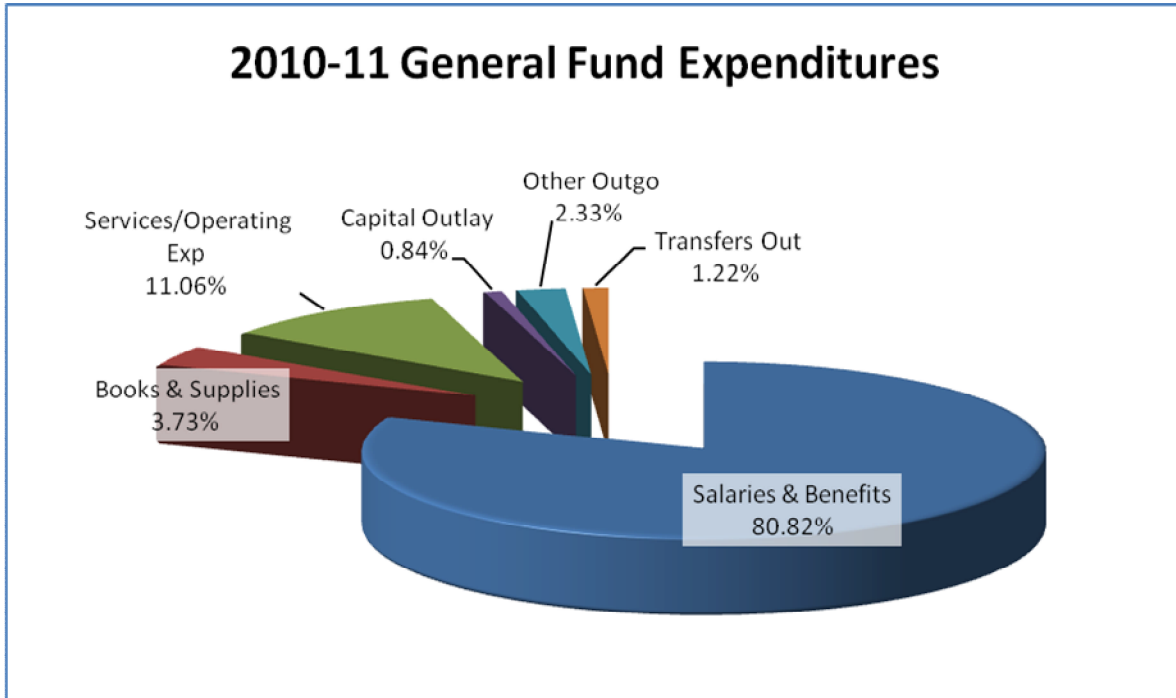
Salaries and benefits represent a substantial percentage of all District expenditures. In 2010-2011 salaries and benefits accounted for 80.82 percent of all combined general fund expenditures. In relation to unrestricted general fund expenditures, salaries and benefits are 86.18 percent of total costs. Expenditures for combined general fund salaries and benefits totaled \$138.2 million and were lower than Second Interim projections by 1.24 percent. The decrease in expenditures from Second Interim projections is attributed to lower than expected substitute and extra duty costs, as well as unfilled vacancies.

The District believes that the success of its programs and support services result from the quality, experience, and training of its personnel. It continues to adopt operating budgets designed to protect core programs and retain personnel.

HEMET UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011



Operating Expenditures

At the close of the 2010-2011 fiscal year, combined General Fund expenses in the books and supplies category totaled \$6.4 million and were \$3.4 million less than what had been Second Interim projections. This variance is primarily accounted for in the restricted General Fund and is in line with historical trends. In the Second Interim, budget projections show entire award amounts for each categorical program, even though they may not be fully spent by year-end. This practice complies with grantor requirements that the district is to budget and make available entire award amounts in the year the funds are awarded, even if the district does not plan to fully expend the grant.

Services and Other Operating Expenses, which include consultants, maintenance contracts, legal fees, and utilities, ended the year at \$18.9 million, or approximately 9.50 percent less than the projected amounts budgeted in the District's Second Interim report. The variance from Second Interim to year-end in this expenditure category is also related to fully budgeting categorical programs earlier in the year and in line with historical trends. Lower than anticipated consultant and energy costs also added to the overall decrease from Second Interim projects in the Services and Operating Expenses category.

HEMET UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

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, 2011

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, 2011

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets

The District's net assets were \$294,092,551 for the fiscal year ended June 30, 2011. 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	
	2011	2010
Assets		
Current and other assets	\$ 136,803,014	\$ 115,805,031
Capital assets	447,739,896	440,536,665
Total Assets	584,542,910	556,341,696
Liabilities		
Current liabilities	30,948,983	27,630,087
Long-term obligations	259,501,376	237,012,224
Total Liabilities	290,450,359	264,642,311
Net Assets		
Invested in capital assets, net of related debt	253,685,149	251,632,429
Restricted	23,327,906	34,140,654
Unrestricted	17,079,496	5,926,302
Total Net Assets	\$ 294,092,551	\$ 291,699,385

HEMET UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

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

	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2010</u>
Revenues		
Program Revenues:		
Charges for services	\$ 7,993,877	\$ 9,307,772
Operating grants and contributions	44,596,858	53,358,984
Capital grants and contributions	666,792	1,312,366
General Revenues:		
Federal and State aid	109,125,973	100,362,984
Property taxes	33,361,048	37,700,470
Other general revenues	10,644,607	7,415,566
Total Revenues	<u>206,389,155</u>	<u>209,458,142</u>
Expenses		
Instruction-related	137,961,296	144,053,801
Pupil services	28,499,376	27,216,993
Administration	9,467,704	13,627,178
Plant services	14,683,920	20,384,598
Ancillary	1,812,106	1,675,286
Other	11,571,587	10,147,331
Total Expenses	<u>203,995,989</u>	<u>217,105,187</u>
Change in Net Assets	<u>\$ 2,393,166</u>	<u>\$ (7,647,045)</u>

HEMET UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011

Governmental Activities

As reported in the *Statement of Activities* on page 19, the cost of all governmental activities in 2010-2011 was \$203,995,989. The amount that our taxpayers ultimately financed for these activities through local taxes was \$33,361,048. The remaining cost of was paid by those who benefited from the programs \$7,993,877 or by other governments and organizations who subsidized certain programs with \$45,263,650 in grants and contributions. The remaining "public benefit" portion of our governmental activities were paid with \$109,125,973 in Federal and State aid and \$10,644,607 with other General Fund revenue sources such as interest and general entitlements.

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

Table 3

	Total Cost of Services		Total Net Cost of Services	
	2011	2010	2011	2010
Instruction	\$ 116,825,232	\$ 121,570,640	\$ 96,230,457	\$ 94,616,492
Instruction-related activities	21,136,064	22,483,161	14,348,340	14,762,277
Pupil services	28,499,376	27,216,993	6,524,027	3,890,055
Administration	9,467,704	13,627,178	7,471,645	10,645,956
Plant services	14,683,920	20,384,598	13,954,342	19,456,049
Ancillary services	1,812,106	1,675,286	1,806,638	1,674,113
Other	11,571,587	10,147,331	10,403,013	8,081,123
Total	\$ 203,995,989	\$ 217,105,187	\$ 150,738,462	\$ 153,126,065

HEMET UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

THE DISTRICT'S FUNDS

Upon completion of the 2010-2011 fiscal year, the District's governmental funds reported a combined fund balance of \$97,078,651, an increase of \$19,152,979 from 2009-2010 (Table 4).

Table 4

	Balances and Activity			June 30, 2011
	July 1, 2010	Revenues	Expenditures	
General Fund	\$ 26,381,267	\$ 180,177,400	\$ 174,422,265	\$ 32,136,402
Building Fund	22,040,186	44,952,292	32,692,085	34,300,393
Non-Major Governmental Funds	29,504,219	32,416,466	31,278,829	30,641,856
Total	\$ 77,925,672	\$ 257,546,158	\$ 238,393,179	\$ 97,078,651

General Fund Budgetary Highlights

Over the course of the year, the District revised the 2010-2011 budget to address changes in revenues and expenditures that were unanticipated at the time the original budget was adopted in June 2010. Mid-year adjustments to the District's budget were approved by the Board of Education on March 16, 2011, 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 69.)

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 2011.

Total final General Fund expenditures for 2010-11 were less than anticipated at Second Interim due primarily to unexpended restricted funds, lower energy costs, and reduced use of consultants.

HEMET UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2011, the District had \$447,739,896 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 \$7,203,231 or 1.64 percent, over the prior year (Table 5).

Table 5

	Governmental Activities	
	2011	2010
Land	\$ 24,500,836	\$ 24,500,136
Construction in progress	11,884,413	38,096,361
Buildings and improvements	405,288,624	372,867,241
Equipment	6,066,023	5,072,927
Total	\$ 447,739,896	\$ 440,536,665

This year's additions totaling \$7.2 million with the majority of expenses related to the capital facilities improvement project at Hemet High School. To fund the district's current capital facilities projects, the district issued \$25 million in Bond Anticipation Notes (BANs) through the Quality School Construction Bonds (QSCB) program in July 2010. At that time, it also re-funded \$18.4 million of the Series A of the district's 2002 General Obligation Bonds. Balances remaining in prior year funding for the State School Construction program, 2006 General Obligation Bonds, Certificates of Participation, and Community Facilities District (CFD) bonds were also used to fund the district's current capital facilities projects.

Capital projects are planned for the 2011-12 year including completion of Phase I Plan and commencement of Phase II of the Hemet High School Master. Renovation and modernization projects at various middle and elementary schools are also planned as well as, a district-wide solar project. The district's capital assets additions, deletions and balances are presented in Note 4 in these financial statements.

HEMET UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

Long-Term Obligations

At June 30, 2011, the District had \$229,590,800 in general obligation bonds, bond anticipation notes, and certificates of participation outstanding compared to \$208,912,079 on June 30, 2010, an increase of 9.90 percent. Other obligations consisted of those items listed in Table 6 below.

Table 6

	Governmental Activities	
	2011	2010
General obligation bonds	\$ 148,867,917	\$ 151,553,776
Bond anticipation notes	24,600,000	-
Certificates of participation	56,122,883	57,358,303
Lease revenue bonds	4,161,436	4,345,914
Capital leases	3,722,464	4,041,082
Accumulated vacation	798,966	888,477
SERP	6,396,692	8,482,155
Claims liability	4,158,880	2,653,745
Net OPEB obligation	10,672,138	7,688,772
Total	\$ 259,501,376	\$ 237,012,224

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, 2011

Table 7 lists the District's 2011-2012 budget assumptions. These assumptions were based on the most current information available to the District at the time the budget was adopted in June 2011. 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 2011-2012 budget, which includes site and department allocations for both staffing and operating budgets.

Table 7

2011-12 Budget Assumptions

COLA	2.24%
COLA Deficit	19.754%
Enrollment (excluding charters)	21,951
Enrollment Growth/(Decline)	79
ADA – Average Daily Attendance	20,665
ADA – Funded	20,665
ADA Percentage	94.0%
Salary Increase/(Decrease) – reduced work year and salary rollbacks)	0
Step & Column % of Salaries	1.60%
Deferred/Routine Maintenance - % of Total Expenditures	1.95%
New Schools/(School Closures)	0
Reserve for Economic Uncertainties	5.00%

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional information contact the Assistant Superintendent, Business Services, at Hemet Unified School District, 1791 West Acacia Avenue, Hemet, California, 92545-3797, or e-mail at: vchristakos@hemetusd.k12.ca.us.

HEMET UNIFIED SCHOOL DISTRICT

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2011

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	\$ 116,825,232	\$ 23,045	\$ 19,904,938	\$ 666,792	\$ (96,230,457)
Instruction-related activities:					
Supervision of instruction	6,335,334	1,126	5,357,355	-	(976,853)
Instructional library, media and technology	1,348,883	226	853,188	-	(495,469)
School site administration	13,451,847	468	575,361	-	(12,876,018)
Pupil services:					
Home-to-school transportation	9,303,907	6,121,395	1,669,337	-	(1,513,175)
Food services	9,691,767	1,068,993	8,274,414	-	(348,360)
All other pupil services	9,503,702	5,317	4,835,893	-	(4,662,492)
Administration:					
Data processing	2,283,785	295	1,134	-	(2,282,356)
All other administration	7,183,919	337,519	1,657,111	-	(5,189,289)
Plant services	14,683,920	45,984	683,594	-	(13,954,342)
Ancillary services	1,812,106	35	5,433	-	(1,806,638)
Community services	72,843	-	-	-	(72,843)
Enterprise services	792	-	-	-	(792)
Interest on long-term obligations	11,470,414	-	-	-	(11,470,414)
Other outgo	27,538	389,474	779,100	-	1,141,036
Total Governmental Activities	\$ 203,995,989	\$ 7,993,877	\$ 44,596,858	\$ 666,792	(150,738,462)

General revenues and subventions:

Property taxes, levied for general purposes	21,765,809
Property taxes, levied for debt service	9,295,821
Taxes levied for other specific purposes	2,299,418
Federal and State aid not restricted to specific purposes	109,125,973
Interest and investment earnings	354,725
Transfers between agencies	1,200,047
Miscellaneous	9,089,835
Subtotal, General Revenues	153,131,628
Change in Net Assets	2,393,166
Net Assets - Beginning	291,699,385
Net Assets - Ending	\$ 294,092,551

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

HEMET UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2011

	General Fund	Building Fund
ASSETS		
Deposits and investments	\$ 12,773,122	\$ 36,562,974
Restricted cash	-	-
Receivables	39,773,997	55,868
Due from other funds	1,375,331	-
Stores inventories	254,609	-
Total Assets	\$ 54,177,059	\$ 36,618,842
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	\$ 3,151,330	\$ 2,318,449
Due to other funds	120,194	-
Current loans	14,935,000	-
Deferred revenue	3,834,133	-
Total Liabilities	22,040,657	2,318,449
Fund Balances:		
Nonspendable	279,609	-
Restricted	4,451,267	34,300,393
Committed	-	-
Assigned	18,855,372	-
Unassigned	8,550,154	-
Total Fund Balances	32,136,402	34,300,393
Total Liabilities and Fund Balances	\$ 54,177,059	\$ 36,618,842

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



Non-Major Governmental Funds	Total Governmental Funds
\$ 25,101,632	\$ 74,437,728
4,169,308	4,169,308
3,016,913	42,846,778
127,212	1,502,543
478,363	732,972
<u>\$ 32,893,428</u>	<u>\$ 123,689,329</u>
\$ 776,608	\$ 6,246,387
1,385,038	1,505,232
-	14,935,000
89,926	3,924,059
<u>2,251,572</u>	<u>26,610,678</u>
478,363	757,972
27,847,978	66,599,638
2,315,515	2,315,515
-	18,855,372
-	8,550,154
<u>30,641,856</u>	<u>97,078,651</u>
<u>\$ 32,893,428</u>	<u>\$ 123,689,329</u>

HEMET UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011**

Total Fund Balance - Governmental Funds		\$ 97,078,651
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:	\$ 536,332,658	
Accumulated depreciation is:	<u>(88,592,762)</u>	
Net Capital Assets		447,739,896
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.		3,384,008
In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when it is incurred.		(3,235,787)
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:		4,468,279
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	146,980,000	
Premium on issuance, net of amortization	1,887,917	
Bond Anticipation Notes	25,000,000	
Discount on issuance, net of amortization	(400,000)	
Certificates of participation	56,246,675	
Discount on issuance, net of amortization	(123,792)	
Lease revenue bonds	4,170,000	
Discount on issuance, net of amortization	(8,564)	
Capital lease obligations	3,722,464	
Compensated absences - accumulated vacation	798,966	
Supplemental early retirement program	6,396,692	
Net OPEB obligation	<u>10,672,138</u>	
Total Long-Term Obligations		<u>(255,342,496)</u>
Total Net Assets - Governmental Activities		<u><u>\$ 294,092,551</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 BALANCES FOR THE YEAR ENDED JUNE 30, 2011

	General Fund	Building Fund
REVENUES		
Revenue limit sources	\$ 110,995,110	\$ -
Federal sources	18,409,942	-
Other State sources	26,538,505	48
Other local sources	22,652,788	341,310
Total Revenues	178,596,345	341,358
EXPENDITURES		
Current		
Instruction	102,504,318	-
Instruction-related activities:		
Supervision of instruction	6,041,172	-
Instructional library, media and technology	1,182,752	-
School site administration	12,009,339	-
Pupil services:		
Home-to-school transportation	9,023,933	-
Food services	41,463	-
All other pupil services	9,239,632	-
Administration:		
Data processing	2,239,184	-
All other administration	8,068,985	-
Plant services	15,128,157	843
Facility acquisition and construction	67,615	12,996,167
Ancillary services	1,806,954	-
Community services	72,843	-
Other outgo	4,797	-
Enterprise services	413	-
Debt service		
Principal	1,105,153	18,160,000
Interest and other	633,316	1,535,075
Total Expenditures	169,170,026	32,692,085
Excess of Revenues Over Expenditures	9,426,319	(32,350,727)
OTHER FINANCING SOURCE (USES)		
Transfers in	896,055	-
Other sources	685,000	44,610,934
Transfers out	(5,252,239)	-
Net Financing Sources (Uses)	(3,671,184)	44,610,934
NET CHANGE IN FUND BALANCES	5,755,135	12,260,207
Fund Balance - Beginning	26,259,905	22,040,186
Restatement	121,362	-
Fund Balances - Beginning (As Restated)	26,381,267	22,040,186
Fund Balances - Ending	\$ 32,136,402	\$ 34,300,393

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

Non-Major Governmental Funds	Total Governmental Funds
\$ 2,462,222	\$ 113,457,332
9,421,812	27,831,754
3,414,459	29,953,012
11,479,432	34,473,530
<u>26,777,925</u>	<u>205,715,628</u>
3,245,410	105,749,728
155,113	6,196,285
306	1,183,058
797,864	12,807,203
-	9,023,933
9,151,610	9,193,073
84,721	9,324,353
9,797	2,248,981
535,316	8,604,301
1,731,691	16,860,691
313,426	13,377,208
-	1,806,954
-	72,843
22,741	27,538
-	413
4,809,305	24,074,458
9,152,556	11,320,947
<u>30,009,856</u>	<u>231,871,967</u>
<u>(3,231,931)</u>	<u>(26,156,339)</u>
5,625,157	6,521,212
13,384	45,309,318
<u>(1,268,973)</u>	<u>(6,521,212)</u>
<u>4,369,568</u>	<u>45,309,318</u>
<u>1,137,637</u>	<u>19,152,979</u>
29,625,581	77,925,672
<u>(121,362)</u>	<u>-</u>
<u>29,504,219</u>	<u>77,925,672</u>
<u>\$ 30,641,856</u>	<u>\$ 97,078,651</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, 2011

Total Net Change in Fund Balances - Governmental Funds		\$ 19,152,979
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	\$ 15,268,875	
Depreciation expense	<u>(8,065,644)</u>	
Net Expense Adjustment		7,203,231
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.		(685,000)
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 more than amounts earned by \$2,085,463. Vacation used was more than amounts earned by \$89,511.		2,174,974
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 \$2,983,366.		(2,983,366)
Proceeds received from issuance of debt is a revenue in the governmental funds, but it increases long-term obligations in the Statement of Net Assets and does not affect the Statement of Activities:		
Sale of general obligation bonds		(18,740,000)
Sale of bond anticipation notes		(25,000,000)
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 these related items:		
Premium on issuance for general obligation bonds	(290,829)	
Discount on issuance for bond anticipation notes	500,000	
Cost of issuance for general obligation bonds	494,245	
Cost of issuance for bond anticipation notes	<u>484,906</u>	
Combined Adjustment		1,188,322

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, 2011

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	\$ 21,635,000
Certificates of participation	1,240,665
Lease revenue bonds	185,000
Capital lease obligations	1,003,618

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	\$ 81,688	
Discount on issuance for bond anticipation notes	(100,000)	
Discount on issuance for certificates of participation	(5,245)	
Discount on issuance for lease revenue bonds	(522)	
Cost of issuance for general obligation bonds	(80,928)	
Cost of issuance for bond anticipation notes	(96,981)	
Cost of issuance for certificates of participation	(49,181)	
Cost of issuance for lease revenue bonds	(13,003)	
Deferred amount on refunding	<u>(2,612)</u>	
Combined Adjustment		(266,784)

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.

(372,508)

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.

(3,342,965)

Change in Net Assets of Governmental Activities

\$ 2,393,166

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

HEMET UNIFIED SCHOOL DISTRICT

PROPRIETARY FUND STATEMENT OF NET ASSETS JUNE 30, 2011

	<u>Governmental Activities Internal Service Fund</u>
ASSETS	
Current Assets	
Deposits and investments	\$ 11,207,298
Receivables	24,922
Due from other funds	2,689
Total Assets	<u>11,234,909</u>
LIABILITIES	
Current Liabilities	
Accounts payable	85,922
Claims liability	2,521,828
Total Current Liabilities	<u>2,607,750</u>
Noncurrent Liabilities	
Long term claims liability	4,158,880
Total Liabilities	<u>6,766,630</u>
NET ASSETS	
Unrestricted	4,468,279
Total Net Assets	<u>\$ 4,468,279</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, 2011

	Governmental Activities Internal Service Fund
OPERATING REVENUES	
Charges to other funds and miscellaneous revenues	\$ 14,875,876
OPERATING EXPENSES	
Professional and contract services	18,288,671
Supplies and materials	10,208
Total Operating Expenses	<u>18,298,879</u>
Operating Loss	<u>(3,423,003)</u>
NONOPERATING REVENUES	
Interest income	<u>80,038</u>
Change in Net Assets	(3,342,965)
Total Net Assets - Beginning	<u>7,811,244</u>
Total Net Assets - Ending	<u><u>\$ 4,468,279</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, 2011**

	Governmental Activities Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from customers	\$ 14,877,692
Cash payments to suppliers for goods and services	(10,208)
Other operating cash payments	(16,538,588)
Net Cash Used by Operating Activities	<u>(1,671,104)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	86,119
Net Cash Provided by Investing Activities	<u>86,119</u>
Net Decrease in Cash and Cash Equivalents	(1,584,985)
Cash and Cash Equivalents - Beginning	12,792,283
Cash and Cash Equivalents - Ending	<u><u>\$ 11,207,298</u></u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:	
Operating loss	\$ (3,423,003)
Changes in assets and liabilities:	
Due from other funds	1,816
Accounts payable	(144,719)
Due to other funds	(13,335)
Claims liabilities	1,908,137
NET CASH USED BY OPERATING ACTIVITIES	<u><u>\$ (1,671,104)</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, 2011

	Agency Funds		
	Debt Service Fund for Special Tax Bonds	Associated Student Bodies	Total Agency Funds
ASSETS			
Deposits and investments	\$ 5,652,945	\$ 1,097,647	\$ 6,750,592
Receivables	-	633	633
Stores inventories	-	6,772	6,772
Total Assets	\$ 5,652,945	\$ 1,105,052	\$ 6,757,997
LIABILITIES			
Due to student groups	\$ -	\$ 1,105,052	\$ 1,105,052
Due to bond holders	5,652,945	-	5,652,945
Total Liabilities	\$ 5,652,945	\$ 1,105,052	\$ 6,757,997

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

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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 and the Western Center Academy Charter School pursuant to *Education Code* Section 47605. The Charter Schools are operated by the District, and their financial activities are presented in the Charter School Special Revenue Fund.

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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 and report all financial resources not accounted for and reported in another fund.

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

As a result, the General Fund reflects an increase in assets, liabilities, and expenditures of \$25,260, \$25,000, and \$25,000, respectively and a decrease in revenues of \$96,362.

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.

Non-Major Governmental Funds

Special Revenue Funds The Special Revenue funds are established to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for the specific purpose (other than debt service or capital projects) of the individual funds.

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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

Adult Education Fund The Adult Education Fund is used to account separately for Federal, State, and local revenues for adult education programs and is to be expended for adult education purposes only, 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 2009-2010 Third Extraordinary Session (SBX3 4), may be used for any educational purpose.

Capital Project Funds The Capital Project funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets (other than those financed by proprietary funds and trust funds).

Capital Facilities Fund The Capital Facilities Fund is used primarily to account separately for monies received from fees levied on developers or other agencies as a condition of 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, 2011

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 and report financial resources that are restricted, committed, or assigned to expenditures for principal and interest on long-term obligations.

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

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, 2011

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

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

Proprietary Funds Proprietary funds are accounted for using a flow of economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of this fund are included in the *Statement of Net 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, 2011

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.

Investments

Investments held at June 30, 2011, 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.

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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.

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.

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.

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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.

Current Loans

Current loans consist of amounts outstanding at June 30, 2011, for Tax Revenue and Anticipation Notes. The notes were issued as short-term obligations to provide cash flow needs. This liability is offset with cash deposits in the County treasurer or a trustee, which have been set aside to repay the notes.

Fund Balances - Governmental Funds

As of June 30, 2011, fund balances of the governmental funds are classified as follows:

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

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

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

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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

Unassigned - all other spendable amounts.

Spending Order Policy

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

Minimum Fund Balance Policy

In fiscal year 2010-2011, the governing board adopted a minimum fund balance policy for the General Fund in order to protect the district against revenue shortfalls or unpredicted on-time expenditures. The policy requires a Reserve for Economic Uncertainties consisting of unassigned amounts equal to no less than five percent of General Fund expenditures and other financing uses.

Net 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, 2011. 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 report \$23,327,906 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.

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Estimates

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

Budgetary Data

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

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

Property Tax

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

Changes in Accounting Principles

In March 2009, the GASB issued 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 initial distinction that is made in reporting fund balance information is identifying amounts that are considered *nonspendable*, such as fund balance associated with inventories. This Statement also provides for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent.

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

The *restricted* fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. The *committed* fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Amounts in the *assigned* fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. *Unassigned* fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned. Governments are required to disclose information about the processes through which constraints are imposed on amounts in the committed and assigned classifications.

Governments also are required to classify and report amounts in the appropriate fund balance classifications by applying their accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent. Disclosure of the policies in the notes to the financial statements is required.

This Statement also provides guidance for classifying stabilization amounts on the face of the balance sheet and requires disclosure of certain information about stabilization arrangements in the notes to the financial statements. The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified by the provisions in this Statement. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency.

The District has implemented the provisions of this statement for the year ended June 30, 2011.

New Accounting Pronouncements

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of GASB Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, this Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination.

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. For component units that currently are blended based on the "substantively the same governing body" criterion, it additionally requires that (1) the primary government and the component unit have a financial benefit or burden relationship or (2) management (below the level of the elected officials) of the primary government have operational responsibility (as defined in paragraph 8a) for the activities of the component unit. New criteria also are added to require blending of component units whose total debt outstanding is expected to be repaid entirely or almost entirely with resources of the primary government. The blending provisions are amended to clarify that funds of a blended component unit have the same financial reporting requirements as a fund of the primary government. Lastly, additional reporting guidance is provided for blending a component unit if the primary government is a business-type activity that uses a single column presentation for financial reporting.

This Statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. Early implementation is encouraged.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2011, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 85,645,026
Restricted cash	4,169,308
Fiduciary funds	6,750,592
Total Deposits and Investments	<u>\$ 96,564,926</u>

Deposits and investments as of June 30, 2011, consist of the following:

Cash on hand and in banks	\$ 11,214,409
Cash in revolving	25,000
Investments	85,325,517
Total Deposits and Investments	<u>\$ 96,564,926</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.

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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

Interest Rate Risk

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

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

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
Riverside County Investment Pool	\$ 77,827,902	478*
Federal Home Loan Banks	3,349,452	9/14/2012
Federal National Mortgage Association - MTN	628,282	4/15/2015
Federal National Mortgage Association - MTN	787,808	11/23/2015
Federal National Mortgage Association - MTN	1,076,826	3/30/2012
Total	\$ 83,670,270	

* 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.

Investment Type	Minimum Legal Rating	Rating as of June 30, 2011	Fair Value
Riverside County Investment Pool	Not Required	AAA/V1+	\$ 77,827,902
Federal Home Loan Banks	Not Required	Aaa	3,349,452
Federal National Mortgage Association - MTN	AA	Aaa	628,282
Federal National Mortgage Association - MTN	AA	Aaa	787,808
Federal National Mortgage Association - MTN	AA	Aaa	1,076,826
Total			\$ 83,670,270

HEMET UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

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, 2011, the District's bank balance of \$5,152,733 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, 2011, 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	\$ 4,570,695	\$ -	\$ 1,178,601	\$ -	\$ 5,749,296	\$ -
State Government						
Apportionment	23,720,412	-	38,303	-	23,758,715	-
Categorical aid	6,453,693	-	1,661,656	-	8,115,349	-
Lottery	1,452,995	-	43,550	-	1,496,545	-
Local Government						
Interest	-	55,868	13,239	16,205	85,312	-
Other Local Sources	3,576,202	-	81,564	8,717	3,666,483	633
Total	<u>\$39,773,997</u>	<u>\$ 55,868</u>	<u>\$ 3,016,913</u>	<u>\$ 24,922</u>	<u>\$42,871,700</u>	<u>\$ 633</u>

HEMET UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 24,500,136	\$ 700	\$ -	\$ 24,500,836
Construction in progress	38,096,361	9,558,773	35,770,721	11,884,413
Total Capital Assets Not Being Depreciated	<u>62,596,497</u>	<u>9,559,473</u>	<u>35,770,721</u>	<u>36,385,249</u>
Capital Assets Being Depreciated				
Buildings and improvements	443,927,555	39,484,660	-	483,412,215
Furniture and equipment	14,539,731	1,995,463	-	16,535,194
Total Capital Assets Being Depreciated	<u>458,467,286</u>	<u>41,480,123</u>	<u>-</u>	<u>499,947,409</u>
Total Capital Assets	<u>521,063,783</u>	<u>51,039,596</u>	<u>35,770,721</u>	<u>536,332,658</u>
Less Accumulated Depreciation				
Buildings and improvements	71,060,314	7,063,277	-	78,123,591
Furniture and equipment	9,466,804	1,002,367	-	10,469,171
Total Accumulated Depreciation	<u>80,527,118</u>	<u>8,065,644</u>	<u>-</u>	<u>88,592,762</u>
Governmental Activities Capital Assets, Net	<u>\$ 440,536,665</u>	<u>\$ 42,973,952</u>	<u>\$ 35,770,721</u>	<u>\$ 447,739,896</u>

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

Governmental Activities	
Instruction	\$ 6,662,211
School site administration	217,773
Food services	379,085
All other administration	475,872
Plant services	330,703
Total Depreciation Expenses Governmental Activities	<u>\$ 8,065,644</u>

HEMET UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 5 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances at June 30, 2011, between major and non-major governmental funds, and internal service funds are as follows:

Due To	Due From		
	General Fund	Non-Major Governmental Funds	Total
General Fund	\$ -	\$ 1,375,331	\$ 1,375,331
Non-Major Governmental Funds	117,505	9,707	127,212
Internal Service Fund	2,689	-	2,689
Total	<u>\$ 120,194</u>	<u>\$ 1,385,038</u>	<u>\$ 1,505,232</u>

A balance of \$200,000 is due to the General Fund from the Child Development (Non-Major) Fund for temporary loan.

A balance of \$100,000 is due to the General Fund from the Charter School (Non-Major) Fund for temporary loan.

A balance of \$273,731 is due to the General Fund from the Charter School (Non-Major) Fund for special education.

A balance of \$352,275 is due to the General Fund from the Cafeteria (Non-Major) Fund for indirect costs.

A balance of \$431,984 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, 2011

Operating Transfers

Interfund transfers for the year ended June 30, 2011, consisted of the following:

Transfer To	Transfer From		Total
	General Fund	Non-Major Governmental Funds	
General Fund	\$ -	\$ 896,055	\$ 896,055
Non-Major Governmental Funds	5,252,239	372,918	5,625,157
Total	<u>\$ 5,252,239</u>	<u>\$ 1,268,973</u>	<u>\$ 6,521,212</u>

The General Fund transferred to the Adult Education Fund for adult education apportionment.	\$ 515,000
The General Fund transferred to the Deferred Maintenance Fund for deferred maintenance apportionment.	1,578,400
The General Fund transferred to the Debt Service for Blended Component Units Fund for debt service payments.	3,133,839
The Cafeteria Fund transferred to the Debt Service for Blended Component Units Fund for debt service payments.	366,006
The Capital Projects for Blended Component Units Fund transferred to Capital Facilities Fund for reimbursement of costs.	6,178
The Charter School Fund transferred to the General Fund for charter related special education expenses per MOU.	273,731
The General Fund transferred to the Special Reserve Fund for Capital Outlay Projects for reimbursement of costs.	25,000
The Capital Facilities Fund transferred to the General Fund for reimbursement of administrative costs for community facilities districts.	622,324
The Debt Service For Blended Component Units Fund transferred to the Capital Projects for Blended Component Units Fund for reimbursement of costs.	734
Total	<u>\$ 6,521,212</u>

HEMET UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2011, consisted of the following:

	General Fund	Building Fund	Non-Major Governmental Funds	Internal Service Fund	Total
Vendor payables	\$ 1,462,347	\$ 703,591	\$ 311,839	\$ 85,922	\$ 2,563,699
State apportionment	1,541,098	-	398,629	-	1,939,727
Salaries and benefits	143,480	-	20,590	-	164,070
Construction	4,405	1,614,858	45,550	-	1,664,813
Claims liability	-	-	-	2,521,828	2,521,828
Total	<u>\$ 3,151,330</u>	<u>\$ 2,318,449</u>	<u>\$ 776,608</u>	<u>\$ 2,607,750</u>	<u>\$ 8,854,137</u>

NOTE 7 - DEFERRED REVENUE

Deferred revenue at June 30, 2011, consisted of the following:

	General Fund	Non-Major Governmental Funds	Total
Federal financial assistance	\$ 3,821,924	\$ 89,926	\$ 3,911,850
Other local	12,209	-	12,209
Total	<u>\$ 3,834,133</u>	<u>\$ 89,926</u>	<u>\$ 3,924,059</u>

NOTE 8 - TAX AND REVENUE ANTICIPATION NOTES (TRANS)

On July 1, 2010, the District issued \$14,910,000 in Tax and Revenue Anticipation Notes (TRAN) bearing interest at 2.00 percent. The notes were issued to supplement cash flows. Interest and principal were due and payable on March 1, 2011. By February 2011, the District placed 100 percent of principal and interest in an irrevocable trust for the sole purpose of satisfying the notes.

On April 14, 2011, the District issued \$14,935,000 in Tax and Revenue Anticipation Notes. The notes were issued to supplement cash flows. Interest and principal are due and payable on January 31, 2012. As of June 30, 2011, the District had a current loan of \$14,935,000 booked in relation to the TRANS.

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

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

Issue Date	Rate	Maturity Date	Outstanding July 1, 2010	Additions	Payments	Outstanding June 30, 2011
4/27/2010	2.50%	9/30/2010	\$ 15,110,000	\$ -	\$ 15,110,000	\$ -
7/1/2010	2.00%	3/1/2011	-	14,910,000	14,910,000	-
4/14/2011	2.50%	1/31/2012	-	14,935,000	-	14,935,000
			<u>\$ 15,110,000</u>	<u>\$ 29,845,000</u>	<u>\$ 30,020,000</u>	<u>\$ 14,935,000</u>

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

A schedule of changes in long-term obligations for the year ended June 30, 2011, is shown below:

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011	Due in One Year
General Obligation Bonds	\$149,875,000	\$18,740,000	\$21,635,000	\$146,980,000	\$ 3,660,000
Premium on issuance	1,678,776	290,829	81,688	1,887,917	-
Bond Anticipation Notes	-	25,000,000	-	25,000,000	-
Discount on issuance	-	(500,000)	(100,000)	(400,000)	-
Certificates of Participation	57,487,340	-	1,240,665	56,246,675	1,325,665
Discount on issuance	(129,037)	-	(5,245)	(123,792)	-
Lease Revenue Bonds	4,355,000	-	185,000	4,170,000	190,000
Discount on issuance	(9,086)	-	(522)	(8,564)	-
Capital Leases	4,041,082	685,000	1,003,618	3,722,464	717,188
Accumulated Vacation - net	888,477	-	89,511	798,966	-
Supplemental Early Retirement Program	8,482,155	-	2,085,463	6,396,692	2,085,463
Claims Liability	2,653,745	1,505,135	-	4,158,880	-
Net OPEB Obligation	7,688,772	4,526,876	1,543,510	10,672,138	-
Total	<u>\$ 237,012,224</u>	<u>\$ 50,247,840</u>	<u>\$ 27,758,688</u>	<u>\$ 259,501,376</u>	<u>\$ 7,978,316</u>

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

- 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			Bonds
				Outstanding July 1, 2010	Issued	Redeemed	Outstanding June 30, 2011
6/6/02	8/1/26	2.50% - 5.38%	\$ 23,000,000	\$ 18,890,000	\$ -	\$ 18,890,000	\$ -
6/4/03	8/1/27	2.75% - 5.50%	15,000,000	12,630,000	-	470,000	12,160,000
5/26/04	8/1/28	4.00% - 5.00%	10,000,000	8,850,000	-	295,000	8,555,000
5/18/05	8/1/29	3.50% - 5.00%	6,000,000	5,430,000	-	175,000	5,255,000
1/17/06	8/1/30	4.00% - 6.50%	6,000,000	5,650,000	-	170,000	5,480,000
3/1/07	8/1/37	4.00% - 5.75%	60,000,000	58,970,000	-	1,050,000	57,920,000
3/4/08	8/1/38	4.50% - 5.25%	40,000,000	39,455,000	-	585,000	38,870,000
7/28/10	8/1/26	4.00% - 4.50%	18,740,000	-	18,740,000	-	18,740,000
			<u>\$ 178,740,000</u>	<u>\$ 149,875,000</u>	<u>\$ 18,740,000</u>	<u>\$ 21,635,000</u>	<u>\$ 146,980,000</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, 2011, the principal balance outstanding was \$12,160,000.

The bonds mature through 2028 as follows:

Fiscal Year	Principal	Interest	Total
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	585,000	394,683	979,683
2017-2021	3,350,000	1,628,050	4,978,050
2022-2026	4,170,000	872,208	5,042,208
2027-2028	1,950,000	83,938	2,033,938
Total	<u>\$ 12,160,000</u>	<u>\$ 4,738,380</u>	<u>\$ 16,898,380</u>

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

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, 2011, the principal balance outstanding was \$8,555,000.

The bonds mature through 2029 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	375,000	339,323	714,323
2017-2021	2,140,000	1,424,169	3,564,169
2022-2026	2,715,000	849,169	3,564,169
2027-2029	1,990,000	152,500	2,142,500
Total	<u>\$ 8,555,000</u>	<u>\$ 4,272,118</u>	<u>\$ 12,827,118</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, 2011, the principal balance outstanding was \$5,255,000 and unamortized premium and issuance costs were \$52,251 and \$52,251, 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>
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	220,000	183,068	403,068
2017-2021	1,235,000	773,237	2,008,237
2022-2026	1,535,000	490,879	2,025,879
2027-2030	1,475,000	132,017	1,607,017
Total	<u>\$ 5,255,000</u>	<u>\$ 2,389,183</u>	<u>\$ 7,644,183</u>

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

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, 2011, the principal balance outstanding was \$5,480,000 and unamortized premium and issuance costs were \$74,610 and \$72,038, 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>
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	205,000	193,400	398,400
2017-2021	1,185,000	832,200	2,017,200
2022-2026	1,485,000	562,663	2,047,663
2027-2031	1,855,000	208,585	2,063,585
Total	<u>\$ 5,480,000</u>	<u>\$ 2,649,323</u>	<u>\$ 8,129,323</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, 2011, the principal balance outstanding was \$57,920,000 and unamortized premium and issuance costs were \$898,146 and \$551,421, respectively. Premium and issuance costs are amortized over the life of the bonds as a component of interest expense on the bonds.

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

The bonds mature through 2038 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	1,385,000	2,319,862	3,704,862
2017-2021	8,030,000	10,587,282	18,617,282
2022-2026	9,855,000	8,520,826	18,375,826
2027-2031	12,130,000	6,145,381	18,275,381
2032-2036	14,860,000	3,250,350	18,110,350
2037-2038	6,850,000	311,623	7,161,623
Total	<u>\$ 57,920,000</u>	<u>\$ 41,046,009</u>	<u>\$ 98,966,009</u>

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, 2011, the principal balance outstanding was \$38,870,000 and unamortized premium and issuance costs were \$590,258 and \$590,258, 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:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	760,000	1,816,075	2,576,075
2017-2021	4,485,000	8,436,650	12,921,650
2022-2026	5,865,000	7,123,100	12,988,100
2027-2031	7,655,000	5,447,831	13,102,831
2032-2036	10,005,000	3,221,675	13,226,675
2037-2039	7,430,000	576,606	8,006,606
Total	<u>\$ 38,870,000</u>	<u>\$ 34,225,387</u>	<u>\$ 73,095,387</u>

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

2010 General Obligation Refunding Bonds

In July 2010, the District issued \$18,740,000 of the 2010 General Obligation Refunding Bonds. The bonds mature on August 1, 2026, with interest yields ranging from 4.00 to 4.50 percent. The proceeds from the sale of the bonds were used to refund the outstanding 2002 General Obligation Bonds, Series A. At June 30, 2011, the principal balance outstanding was \$18,740,000 and unamortized premium and issuance costs were \$272,652 and \$463,355, 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 2027 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 740,000	\$ 743,329	\$ 1,483,329
2013	775,000	709,903	1,484,903
2014	820,000	677,996	1,497,996
2015	860,000	644,389	1,504,389
2016	900,000	609,182	1,509,182
2017-2021	5,890,000	2,407,770	8,297,770
2022-2026	7,145,000	1,137,195	8,282,195
2027	1,610,000	35,927	1,645,927
Total	<u>\$ 18,740,000</u>	<u>\$ 6,965,691</u>	<u>\$ 25,705,691</u>

Bond Anticipation Notes

In July 2010, the District issued the 2010 Qualified School Construction Bond Anticipation Notes in the amount of \$25,000,000. The notes mature July 2015, with an interest rate of 5.375 percent. The notes were issued for the purpose of financing the acquisition and construction of educational facilities and projects. The notes will be refunded through the issuance of General Obligation Bonds which were approved by the voters of the District at an election held on November 7, 2006, which approved the issuance of up to \$149,000,000 principal amount of General Obligation Bonds. The balance of the 2010 General Obligation Bond Anticipation Notes outstanding at June 30, 2011, was \$25,000,000.

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

The bonds mature through 2016 as follows:

Fiscal Year	Principal	Interest	Total
2012	\$ -	\$ 1,343,750	\$ 1,343,750
2013	-	1,343,750	1,343,750
2014	-	1,343,750	1,343,750
2015	-	1,343,750	1,343,750
2016	25,000,000	671,875	25,671,875
Total	\$ 25,000,000	\$ 6,046,875	\$ 31,046,875

Certificates of Participation Summary

Issue Date	Maturity Date	Original Issue	COP		Issued	Redeemed	COP	
			Outstanding July 1, 2010	Outstanding June 30, 2011			Outstanding	Outstanding
10/14/04	10/01/32	\$ 23,425,000	\$ 20,385,000	-	\$ 685,000	\$ 19,700,000	-	-
12/13/05	12/27/20	5,000,000	3,897,340	-	275,665	3,621,675	-	-
06/13/06	10/01/36	29,445,000	29,445,000	-	105,000	29,340,000	-	-
11/21/07	10/01/36	4,610,000	3,760,000	-	175,000	3,585,000	-	-
		\$ 62,480,000	\$ 57,487,340	\$ -	\$ 1,240,665	\$ 56,246,675	-	-

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.

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, 2011, the principal balance of \$19,700,000 remained outstanding.

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

The certificates mature through 2033 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
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	805,000	729,939	1,534,939
2017-2021	4,555,000	3,105,088	7,660,088
2022-2026	5,620,000	2,001,738	7,621,738
2027-2031	5,335,000	623,034	5,958,034
2032-2033	390,000	11,562	401,562
Total	<u>\$ 19,700,000</u>	<u>\$ 9,687,667</u>	<u>\$ 29,387,667</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, and issuance costs).

The District began making annual deposits of \$275,665 on December 27, 2006, into an investment account with US Bank for payment of the QZAB at maturity. Fifteen payments will be made from December 27, 2006 to December 27, 2020, which will total \$4,134,975. The total expected interest to be earned in the investment account is \$865,025. As of June 30, 2011, US Bank held \$1,480,629 for payment of principal.

Year Ending June 30,	District Payment	Expected Earned Interest	Total
2012	\$ 275,665	\$ 34,815	\$ 310,480
2013	275,665	51,226	326,891
2014	275,665	59,902	335,567
2015	275,665	68,820	344,485
2016	275,665	77,972	353,637
2017-2021	1,378,325	469,986	1,848,311
Total	<u>\$ 2,756,650</u>	<u>\$ 762,721</u>	<u>\$ 3,519,371</u>

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, 2011, the principal balance outstanding was \$29,340,000.

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

The certificates mature through 2037 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
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	520,000	1,081,015	1,601,015
2017-2021	3,640,000	5,009,277	8,649,277
2022-2026	5,190,000	4,146,090	9,336,090
2027-2031	8,795,000	2,884,700	11,679,700
2032-2036	8,740,000	757,568	9,497,568
2037	860,000	16,877	876,877
Total	<u>\$ 29,340,000</u>	<u>\$ 18,388,081</u>	<u>\$ 47,728,081</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, 2011, the principal balance outstanding was \$3,585,000.

The certificates mature through 2037 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2012	\$ 50,000	\$ 160,075	\$ 210,075
2013	-	159,075	159,075
2014	-	159,075	159,075
2015	-	159,075	159,075
2016	-	159,075	159,075
2017-2021	-	795,375	795,375
2022-2026	-	795,375	795,375
2027-2031	715,000	734,062	1,449,062
2032-2036	1,815,000	448,763	2,263,763
2037	1,005,000	22,613	1,027,613
Total	<u>\$ 3,585,000</u>	<u>\$ 3,592,563</u>	<u>\$ 7,177,563</u>

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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, 2011, the principal balance of \$4,170,000 remains outstanding.

The bonds mature through 2027 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
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	225,000	145,373	370,373
2017-2021	1,245,000	584,657	1,829,657
2022-2026	1,540,000	290,720	1,830,720
2027	350,000	15,750	365,750
Total	<u>\$ 4,170,000</u>	<u>\$ 1,693,583</u>	<u>\$ 5,863,583</u>

Capital Leases

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

	<u>Vehicles</u>	<u>Relocatables</u>	<u>Energy Management Equipment</u>	<u>Total</u>
Balance, July 1, 2010	\$ 1,225,120	\$ 183,261	\$ 3,318,909	\$ 4,727,290
Additions	748,719	-	-	748,719
Payments	536,192	183,261	471,494	1,190,947
Balance, June 30, 2011	<u>\$ 1,437,647</u>	<u>\$ -</u>	<u>\$ 2,847,415</u>	<u>\$ 4,285,062</u>

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2012	\$ 880,820
2013	778,175
2014	773,175
2015	672,707
2016	574,236
2017-2019	605,949
Total	4,285,062
Less: Amount Representing Interest	562,598
Present Value of Minimum Lease Payments	<u>\$ 3,722,464</u>

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2011, amounted to \$798,966.

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, 2011, is \$6,396,692.

Year Ending June 30,	Amount
2012	\$ 2,167,606
2013	2,167,606
2014	1,509,362
2015	761,288
Total	6,605,862
Less: Amount Representing Interest	209,170
Total	<u>\$ 6,396,692</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 \$4,158,880.

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

Other Postemployment Benefit (OPEB) Obligation

The District's annual required contribution for the year ended June 30, 2011, was \$4,219,325, and contributions made by the District during the year were \$1,218,648. Interest on the net OPEB obligation and adjustments to the annual required contribution were \$307,551 and \$(324,862), respectively, which resulted in an increase to the net OPEB obligation of \$2,983,366. As of June 30, 2011, the net OPEB obligation was \$10,672,138. See Note 12 for additional information regarding the OPEB obligation and the postemployment benefits plan.

NOTE 10 - NON-OBLIGATORY DEBT

Non-obligatory debt relates to debt issuances by the Community Facility Districts, as authorized by the Mello-Roos Community Facilities Act of 1982 as amended, and the Mark-Roos Local Bond Pooling Act of 1985, and are payable from special taxes levied on property within the Community Facilities Districts according to a methodology approved by the voters within the District. Neither the faith and credit nor taxing power of the District is pledged to the payment of the bonds. Reserves have been established from the bond proceeds to meet delinquencies should they occur. If delinquencies occur beyond the amounts held in those reserves, the District has no duty to pay the delinquency out of any available funds of the District. The District acts solely as an agent for those paying taxes levied and the bondholders, and may initiate foreclosure proceedings. Special assessment debt of \$36,765,000 as of June 30, 2011, does not represent debt of the District and, as such, does not appear in the accompanying basic financial statements.

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

NOTE 11 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Building Fund	Non-Major Governmental Funds	Total
Nonspendable				
Revolving cash	\$ 25,000	\$ -	\$ -	\$ 25,000
Stores inventories	254,609	-	478,363	732,972
Total Nonspendable	<u>279,609</u>	<u>-</u>	<u>478,363</u>	<u>757,972</u>
Restricted				
Legally restricted programs	4,451,267	-	5,106,300	9,557,567
Capital projects	-	34,300,393	9,824,832	44,125,225
Debt services	-	-	12,916,846	12,916,846
Total Restricted	<u>4,451,267</u>	<u>34,300,393</u>	<u>27,847,978</u>	<u>66,599,638</u>
Committed				
Adult education program	-	-	561,205	561,205
Deferred maintenance program	-	-	1,754,310	1,754,310
Total Committed	<u>-</u>	<u>-</u>	<u>2,315,515</u>	<u>2,315,515</u>
Assigned				
Site discretionary carryover	798,134	-	-	798,134
STAR testing	33,577	-	-	33,577
Business summit	6,762	-	-	6,762
Equipment replacement	557,626	-	-	557,626
Medi-cal administrative activities	1,190,429	-	-	1,190,429
Erate / IT projects	493,003	-	-	493,003
Site donations	368,738	-	-	368,738
ROTC program	4,935	-	-	4,935
Unclaimed property	51,689	-	-	51,689
Transportation	75,005	-	-	75,005
Counselors	4,300,000	-	-	4,300,000
Library and health technicians	2,000,000	-	-	2,000,000
Debt service	3,000,000	-	-	3,000,000
Deficit spending reserve	5,536,905	-	-	5,536,905
Site lottery carryover	438,569	-	-	438,569
Total Assigned	<u>18,855,372</u>	<u>-</u>	<u>-</u>	<u>18,855,372</u>
Unassigned				
Economic uncertainties	8,550,154	-	-	8,550,154
Total	<u>\$ 32,136,402</u>	<u>\$ 34,300,393</u>	<u>\$ 30,641,856</u>	<u>\$ 97,078,651</u>

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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 134 retirees and beneficiaries currently receiving benefits and 2,274 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 2010-2011, the District contributed \$1,218,648 to the Plan, of which \$527,060 was used for current premiums and \$691,588 was an implicit subsidy.

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	\$ 4,219,325
Interest on net OPEB obligation	307,551
Adjustment to annual required contribution	(324,862)
Annual OPEB cost (expense)	<u>4,202,014</u>
Contributions made	<u>(1,218,648)</u>
Increase in net OPEB obligation	<u>2,983,366</u>
Net OPEB obligation, beginning of year	<u>7,688,772</u>
Net OPEB obligation, end of year	<u><u>\$ 10,672,138</u></u>

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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
2009	\$ 3,792,736	\$ 1,763,551	46.50%	\$ 4,984,680
2010	3,793,363	1,089,271	28.72%	7,688,772
2011	4,202,014	1,218,648	29.00%	10,672,138

Funded Status and Funding Progress

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

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)
July 1, 2010	\$ -	\$ 34,505,420	\$ 34,505,420	0%	\$ 100,578,069	34%

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

Actuarial Methods and Assumptions

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

In the July 1, 2010, 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 7.9 percent to an ultimate rate of 5.5 percent for the plan year beginning July 1, 2011.

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

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, 2009 to June 30, 2011:

	<u>Health Care</u>	<u>Workers'</u> <u>Compensation</u>
Liability Balance, July 1, 2009	\$ 1,343,000	\$ 2,928,222
Claims provision	13,277,641	1,628,460
Claims paid	<u>(13,146,641)</u>	<u>(1,258,111)</u>
Liability Balance, June 30, 2010	1,474,000	3,298,571
Claims provision	14,685,113	4,994,843
Claims paid	<u>(14,540,113)</u>	<u>(3,231,706)</u>
Liability Balance, June 30, 2011	<u>\$ 1,619,000</u>	<u>\$ 5,061,708</u>
 Amount available to pay claims	 <u>\$ 2,722,663</u>	 <u>\$ 8,512,246</u>

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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 2010-2011 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, 2011, 2010, and 2009, were \$6,504,858, \$7,080,839, and \$7,368,724, 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, 2011

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 2010-2011 was 10.707 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, 2011, 2010, and 2009, were \$3,250,360, \$3,094,599, and \$3,079,453, 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 \$3,428,010 (4.267 percent of salaries subject to CalSTRS). No contributions were made to CalPERS for the year ended June 30, 2011. 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, 2011.

Litigation

The District is not currently a party to any legal proceedings.

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

Construction Commitments

As of June 30, 2011, the District had the following commitments with respect to the unfinished capital projects:

Capital Projects	Remaining Construction Commitments	Expected Date of Completion
Hemet High Master Plan Phase I	\$ 122,510	6/1/2012
Hemet High Master Plan Phase II	14,802,867	6/1/2013
Cal-Safe	10,575	8/1/2011
Fruitvale/Hemet Relocatables	45,550	9/1/2011
Winchester Relocatables	46,646	9/1/2011
Life Skills	196,024	10/1/2011
Ramona Shade Structure	38,978	10/1/2011
	<u>\$ 15,263,150</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, 2011, the District made payments of \$733,439 to SoCal ReLiEF, for services received.

NOTE 17 - SUBSEQUENT EVENTS

The District issued \$22,980,000 of Tax and Revenue Anticipation Notes dated July 1, 2011. The notes mature on March 1, 2012, and yield 0.30 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, 2012, until 100 percent of principal and interest due is on account in February, 2012.

HEMET UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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), and Assembly Bill 1610 (AB 1610) (Chapter 724, Statutes of 2010), 28 percent of current year appropriations have now been deferred to a subsequent period, creating significant cash flow management issues for districts in addition to requiring substantial budget reductions, ultimately impacting the ability of California school districts to meet their goals for educational services.

NOTE 19 - RESTATEMENT OF PRIOR YEAR FUND BALANCES

The District's prior year fund balances for the General Fund and for the Non-Major Governmental Funds have been restated as of June 30, 2011 to conform to GASB Statement No. 54's definition of governmental funds. Accordingly, the beginning fund balance for Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, as presented in the Non-Major Governmental Fund opinion unit, are reported as a restatement to the beginning fund balance of the General Fund. The restatement does not change the total fund balance amounts reported in the District's audited financial statements.

As discussed in the Notes to the basic financial statements, the accompanying financial statements reflect certain changes required as a result of the implementation of GASB Statement No. 54 for the year ended June 30, 2011. These changes required a restatement to the beginning fund balance of the General Fund and the Non-Major Governmental Funds, as discussed in Note 1.

General Fund

Fund Balance - Beginning	\$ 26,259,905
Change in accounting principles to conform to GASB Statement No. 54	121,362
Fund Balance - Beginning as Restated	<u>\$ 26,381,267</u>

Non-Major Governmental Funds

Fund Balance - Beginning	\$ 29,625,581
Change in accounting principles to conform to GASB Statement No. 54	(121,362)
Fund Balance - Beginning as Restated	<u>\$ 29,504,219</u>

REQUIRED SUPPLEMENTARY INFORMATION

HEMET UNIFIED SCHOOL DISTRICT

GENERAL FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2011

	Budgeted Amounts		Actual (GAAP Basis)	Variances -
	Original	Final		Positive
				(Negative)
				Final to Actual
REVENUES				
Revenue limit sources	\$ 105,582,503	\$ 110,736,660	\$ 110,995,110	\$ 258,450
Federal sources	14,975,783	18,413,216	18,409,942	(3,274)
Other State sources	21,797,548	23,059,774	26,538,505	3,478,731
Other local sources	22,059,598	22,250,004	22,652,788	402,784
Total Revenues ¹	164,415,432	174,459,654	178,596,345	4,136,691
EXPENDITURES				
Current				
Certificated salaries	77,550,553	78,084,827	78,171,074	(86,247)
Classified salaries	29,611,016	29,287,434	29,348,293	(60,859)
Employee benefits	31,240,031	31,055,858	34,091,496	(3,035,638)
Books and supplies	6,653,006	6,503,717	6,381,507	122,210
Services and operating expenditures	18,056,332	20,250,037	18,903,850	1,346,187
Other outgo	(216,034)	375,538	535,337	(159,799)
Debt service				
Principal	2,059,981	2,169,580	1,105,153	1,064,427
Interest	2,449,323	2,355,359	633,316	1,722,043
Total Expenditures ¹	167,404,208	170,082,350	169,170,026	912,324
Excess (Deficiency) of Revenues Over Expenditures	(2,988,776)	4,377,304	9,426,319	5,049,015
Other Financing Sources (Uses)				
Transfers in	324,134	946,047	896,055	(49,992)
Other sources	-	-	685,000	685,000
Transfers out	(1,230,000)	(2,093,400)	(5,252,239)	(3,158,839)
Net Financing Sources (Uses)	(905,866)	(1,147,353)	(3,671,184)	(2,523,831)
NET CHANGE IN FUND BALANCES	(3,894,642)	3,229,951	5,755,135	2,525,184
Fund Balance - Beginning	26,381,267	26,381,267	26,381,267	-
Fund Balance - Ending	\$ 22,486,625	\$ 29,611,218	\$ 32,136,402	\$ 2,525,184

¹ On behalf payments of \$3,428,010 are included in the actual revenues and expenditures, but have not been included in the budgeted amounts. In addition, due to the consolidation of Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects for reporting purposes into the General Fund, additional revenues and expenditures pertaining to this other fund is included in the Actual (GAAP Basis) revenues and expenditures, but is not included in the original and final General Fund budgets.

HEMET UNIFIED SCHOOL DISTRICT

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING
PROGRESS
FOR THE YEAR ENDED JUNE 30, 2011**

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%
July 1, 2010	-	34,505,420	34,505,420	0%	100,578,069	34%

SUPPLEMENTARY INFORMATION

HEMET UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2011

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF EDUCATION			
Indian Education - Grants to Local Educational Agencies	84.060A	10011	\$ 11,511
Carl D. Perkins Vocational and Technical Education Act of 1998 Secondary Education	84.048	14894	147,548
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 Local Assistance, Part B, Section 611, Private School ISPs	84.027	13379	4,151,414
Basic Local Assistance ARRA, Part B, Section 611 Local Assistance Private School ISPs ARRA, Part B, Sec 611	84.027	10115	7,593
Basic Local Assistance ARRA, Part B, Section 611 Local Assistance Private School ISPs ARRA, Part B, Sec 611	84.391	15003	2,158,882
Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.391	10123	12,736
Preschool Grants ARRA, Part B, Section 619	84.173	13430	74,122
Preschool Local Entitlement, Part B, Section 611 (AGE 3-4-5)	84.392	15000	78,795
Preschool Local Entitlement ARRA, Part B, Section 611	84.027A	13682	171,045
Preschool Staff Development, Part B, Section 619	84.391	15002	116,496
	84.173A	13431	1,443
Total Special Education (IDEA) Cluster			<u>6,772,526</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	4,256,378
Title I, Part A - ARRA Basic Grants Low Income and Neglected	84.389	15005	149,483
Total Title I, Part A Cluster			<u>4,405,861</u>
Title I, Part A - Program Improvement LEA Corrective Action, Minor Performance Problems	84.010	14957	8,218
State Fiscal Stabilization Fund (SFSF)	84.394	25008	6,594,217
Title I, Part B - Reading First Program LEA Grants	84.357	14787	351,638
Title II, Part A - Improving Teacher Quality Local Grants	84.367	14341	903,666
Title II, Part A - Administrator Training	84.367	14344	22,351

See accompanying note to supplementary information.

HEMET UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2011**

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
Education Technology State Grants Cluster			
Title II, Part D - Enhancing Education Through Technology (EETT), Formula Grants	84.318	14344	\$ 42,333
Title II, Part D - ARRA Enhancing Education Through Technology (EETT), Formula Grants	84.386	15019	<u>95,387</u>
Total Education Technology State Grants Cluster			<u>137,720</u>
Title III - Immigrant Education Program	84.365	14346	316,071
Title IV, Part A - Safe and Drug Free Schools and Communities, Formula Grants	84.186	14347	47,354
Title IV, Part B, 21st Century Community Learning Centers Program	84.287	14349	96,322
Title V, Part A - Innovative Education Strategies	84.298A	14354	8,390
Title V, Part B - Public Charter Schools Grant Program	84.282	14531	275,000
Title X, McKinney-Vento Homeless Children Assistance Grants	84.196	14332	1,750
Passed through Search Institute: ARRA - State Fiscal Stabilization Fund (SFSF) - Investing in Innovation, Developmental Grant	84.396C	10130	<u>116,979</u>
Total U.S. Department of Education			<u>20,217,122</u>
 U.S. DEPARTMENT OF AGRICULTURE			
Forest Reserve	10.665	10044	35,811
Passed through California Department of Education (CDE): Child Nutrition Cluster			
Especially Needy Breakfast	10.553	13526	1,747,018
National School Lunch Program	10.555	13524	6,286,443
Meal Supplement	10.555	13396	219,696
Food Distribution	10.555	[1]	<u>698,975</u>
Total Child Nutrition Cluster			<u>8,952,132</u>
CCFP Claims - Centers and Family Day Care	10.558	13393	<u>182,950</u>
Total U.S. Department of Agriculture			<u>9,170,893</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, 2011**

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF HOMELAND SECURITY			
FEMA Public Assistance Grant	97.036	10014	\$ 21,021
Total U.S. Department of Homeland Security			<u>21,021</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through California Department of Health Services:			
Medicaid Cluster			
Medi-Cal Billing Option	93.778	10013	570,656
Medical Administrative Activities Program	93.778	10060	597,171
Total Medicaid Cluster			<u>1,167,827</u>
Passed through Riverside County Office of Education (RCOE):			
Head Start Cluster			
Head Start	93.600	10016	1,042,841
Head Start - ARRA	93.708	10130	38,359
Total Head Start Cluster			<u>1,081,200</u>
Total U.S. Department of Health and Human Total Federal Programs			<u><u>2,249,027</u></u> <u>\$ 31,658,063</u>

See accompanying note to supplementary information.

HEMET UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2011

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>
Lisa DeForest	President	2012
William Sanborn	Vice President	2014
Marilyn Forst	Member	2012
Paul Bakkom	Member	2014
Charlotte Jones	Member	2012
Ross Valenzuela	Member	2014
Joe Wojcik	Member	2014

ADMINISTRATION

Dr. Steven Lowder	Superintendent
Vincent Christakos	Assistant Superintendent, Business Services
Dr. Sally Cawthon	Assistant Superintendent, Educational Services
Dr. LaFaye Platter	Deputy Superintendent, Human Resources
Pam Buckhout	Director of Fiscal Services

See accompanying note to supplementary information.

HEMET UNIFIED SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE FOR THE YEAR ENDED JUNE 30, 2011

	Final Report	
	Second Period Report	Annual Report
ELEMENTARY		
Kindergarten	1,462	1,459
First through third	4,500	4,492
Fourth through sixth	4,455	4,452
Seventh and eighth	2,950	2,943
Home and hospital	4	6
Special education	589	600
Total Elementary	13,960	13,952
SECONDARY		
Regular classes	5,898	5,839
Continuation education	384	378
Home and hospital	4	4
Special education	393	394
Total Secondary	6,679	6,615
Total K-12	20,639	20,567
HAAAT CHARTER SCHOOL		
Ninth through twelfth	192	191
HAAAT CHARTER SCHOOL - Classroom Based Instruction		
Ninth through twelfth	192	191
WESTERN CENTER ACADEMY		
Fourth through sixth	121	121
Seventh and eighth	117	116
Total	121	121
WESTERN CENTER ACADEMY - Classroom Based Instruction		
Fourth through sixth	121	121
Seventh and eighth	117	116
Total	121	121

See accompanying note to supplementary information.

HEMET UNIFIED SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME FOR THE YEAR ENDED JUNE 30, 2011

Grade Level	1982-83	Reduced 1982-83	1986-87	Reduced 1986-87	2010-11	Number of Days		Status
	Actual Minutes	Actual Minutes	Minutes Requirement	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Kindergarten	31,500	30,625	36,000	35,000	35,000	175	N/A	Complied
Grades 1 - 3	43,095	41,898	50,400	49,000				
Grade 1					50,731	175	N/A	Complied
Grade 2					50,731	175	N/A	Complied
Grade 3					50,731	175	N/A	Complied
Grades 4 - 6	51,075	49,656	54,000	52,500				
Grade 4					52,610	175	N/A	Complied
Grade 5					52,610	175	N/A	Complied
Grade 6					58,905	175	N/A	Complied
Grades 7 - 8	51,075	49,656	54,000	52,500				
Grade 7					58,905	175	N/A	Complied
Grade 8					58,905	175	N/A	Complied
Grades 9 - 12	56,022	54,466	64,800	63,000				
Grade 9					63,050	175	N/A	Complied
Grade 10					63,050	175	N/A	Complied
Grade 11					63,050	175	N/A	Complied
Grade 12					63,050	175	N/A	Complied

See accompanying note to supplementary information.

HEMET UNIFIED SCHOOL DISTRICT

**SCHEDULE OF INSTRUCTIONAL TIME (Continued)
FOR THE YEAR ENDED JUNE 30, 2011**

Hemet Academy for Applied Academics and Technology (HAAAT)

Grade Level	1982-83	Reduced 1982-83	1986-87	Reduced 1986-87	2010-11	Number of Days		Status
	Actual Minutes	Actual Minutes	Minutes Requirement	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Grades 9 - 12	*	*	64,800	62,949				
Grade 9					79,356	175	N/A	Complied
Grade 10					79,356	175	N/A	Complied
Grade 11					79,356	175	N/A	Complied
Grade 12					79,356	175	N/A	Complied

Western Center Academy

Grade Level	1982-83	Reduced 1982-83	1986-87	Reduced 1986-87	2010-11	Number of Days		Status
	Actual Minutes	Actual Minutes	Minutes Requirement	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Grades 4 - 6	*	*	54,000	52,500				
Grade 4					N/A	N/A	N/A	N/A
Grade 5					N/A	N/A	N/A	N/A
Grade 6					56,500	175	N/A	Complied
Grades 7 - 8	*	*	54,000	52,500				
Grade 7					56,500	175	N/A	Complied
Grade 8					56,500	175	N/A	Complied

The Hemet Academy for Applied Academics and Technology and Western Center Academy were 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, 2011**

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2011.

See accompanying note to supplementary information.

HEMET UNIFIED SCHOOL DISTRICT

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011**

	(Budget) 2012 ¹	2011	2010	2009
GENERAL FUND ⁵				
Revenues	\$ 168,521,693	\$ 178,595,659	\$ 183,806,813	\$ 200,652,621
Other sources and transfers in	303,030	1,678,103	186,310	1,322,196
Total Revenues and Other Sources	168,824,723	180,273,762	183,993,123	201,974,817
Expenditures	169,399,556	169,170,026	179,210,503	192,342,034
Other uses and transfers out	1,329,906	5,227,239	4,478,043	5,365,393
Total Expenditures and Other Uses	170,729,462	174,397,265	183,688,546	197,707,427
INCREASE (DECREASE) IN FUND BALANCE	\$ (1,904,739)	\$ 5,876,497	\$ 304,577	\$ 4,267,390
ENDING FUND BALANCE	\$ 30,231,663	\$ 32,136,402	\$ 26,259,905	\$ 25,955,328
AVAILABLE RESERVES ²	\$ 10,464,313	\$ 8,550,154	\$ 5,608,191	\$ 5,901,141
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO ³	6.13%	5.00%	3.12%	3.05%
LONG-TERM OBLIGATIONS	N/A	\$ 259,501,376	\$ 237,012,224	\$ 237,626,857
K-12 AVERAGE DAILY ATTENDANCE AT P-2 ⁴	20,665	20,639	20,866	21,572

The General Fund balance has increased by \$6,059,712 over the past two years. The fiscal year 2011-2012 budget projects a decrease of \$1,904,739 (5.95 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 2011-2012 fiscal year. Total long-term obligations have increased by \$21,874,519 over the past two years.

Average daily attendance has decreased by 933 over the past two years. Growth of 26 ADA is anticipated during fiscal year 2011-2012.

¹ Budget 2012 is included for analytical purposes only and has not been subjected to audit.

² Available reserves consist of all unassigned fund balances and all funds reserved for economic uncertainty contained within the General Fund.

³ On behalf payments of \$3,428,010, \$3,723,689, and \$4,134,905 have been excluded from the calculation of available reserves for the fiscal years ending June 30, 2011, 2010, and 2009.

⁴ Excludes Charter School ADA.

⁵ General Fund amounts do not include activity related to the consolidation of the Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects as required by GASB Statement No. 54.

See accompanying note to supplementary information.

HEMET UNIFIED SCHOOL DISTRICT

**SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2011**

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

See accompanying note to supplementary information.

HEMET UNIFIED SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2011**

	Charter Schools Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Special Reserve Fund for Other Than Capital Outlay Projects
ASSETS						
Deposits and investments	\$ 98,231	\$ 565,525	\$ 8,658	\$ 3,990,206	\$ 1,887,796	\$ -
Restricted cash	-	-	-	-	-	-
Receivables	1,433,992	10,737	232,423	1,277,354	1,953	-
Due from other funds	90,221	-	11,991	-	-	-
Stores inventories	-	-	-	478,363	-	-
Total Assets	\$ 1,622,444	\$ 576,262	\$ 253,072	\$ 5,745,923	\$ 1,889,749	\$ -
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 473,101	\$ 13,857	\$ 22,218	\$ 67,693	\$ 135,439	\$ -
Due to other funds	381,304	1,200	203,090	799,444	-	-
Deferred revenue	89,926	-	-	-	-	-
Total Liabilities	944,331	15,057	225,308	867,137	135,439	-
Fund Balances:						
Nonspendable	-	-	-	478,363	-	-
Restricted	678,113	-	27,764	4,400,423	-	-
Committed	-	561,205	-	-	1,754,310	-
Total Fund Balances	678,113	561,205	27,764	4,878,786	1,754,310	-
Total Liabilities and Fund Balances	\$ 1,622,444	\$ 576,262	\$ 253,072	\$ 5,745,923	\$ 1,889,749	\$ -

See accompanying note to supplementary information.

Capital Facilities Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Capital Projects for Blended Component Units Fund	Bond Interest and Redemption Fund	Debt Service For Blended Component Units Fund	Non-Major Governmental Funds
\$ 3,568,066	\$ 2,754,658	\$ 7,983	\$ 3,472,971	\$ 8,705,799	\$ 41,739	\$ 25,101,632
-	-	-	-	-	4,169,308	4,169,308
56,717	3,725	12	-	-	-	3,016,913
-	-	25,000	-	-	-	127,212
-	-	-	-	-	-	478,363
\$ 3,624,783	\$ 2,758,383	\$ 32,995	\$ 3,472,971	\$ 8,705,799	\$ 4,211,047	\$ 32,893,428
\$ 64,300	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 776,608
-	-	-	-	-	-	1,385,038
-	-	-	-	-	-	89,926
64,300	-	-	-	-	-	2,251,572
-	-	-	-	-	-	478,363
3,560,483	2,758,383	32,995	3,472,971	8,705,799	4,211,047	27,847,978
-	-	-	-	-	-	2,315,515
3,560,483	2,758,383	32,995	3,472,971	8,705,799	4,211,047	30,641,856
\$ 3,624,783	\$ 2,758,383	\$ 32,995	\$ 3,472,971	\$ 8,705,799	\$ 4,211,047	\$ 32,893,428

HEMET UNIFIED SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2011

	Charter Schools Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Special Reserve Fund for Other Than Capital Outlay Projects
REVENUES						
Revenue limit sources	\$ 2,462,222	\$ -	\$ -	\$ -	\$ -	\$ -
Federal sources	286,730	-	182,950	8,952,132	-	-
Other State sources	471,305	-	1,387,613	724,796	-	-
Other local sources	329,888	221,875	748	1,217,390	8,251	-
Total Revenues	3,550,145	221,875	1,571,311	10,894,318	8,251	-
EXPENDITURES						
Current						
Instruction	1,907,105	308,299	1,030,006	-	-	-
Instruction-related activities:						
Supervision of instruction	6,191	-	148,922	-	-	-
Instructional library, media and technology	306	-	-	-	-	-
School site administration	471,805	278,943	47,116	-	-	-
Pupil services:						
Food services	-	-	214,589	8,937,021	-	-
All other pupil services	53,558	1,473	29,690	-	-	-
Administration:						
Data processing	9,797	-	-	-	-	-
All other administration	63,223	25,355	66,601	352,275	-	-
Plant services	365,230	7,625	11,840	268,361	964,307	-
Facility acquisition and construction	-	-	-	-	-	-
Other outgo	-	-	-	-	-	-
Debt service						
Principal	-	-	-	-	-	-
Interest and other	-	-	-	-	-	-
Total Expenditures	2,877,215	621,695	1,548,764	9,557,657	964,307	-
Excess (Deficiency) of Revenues						
Over Expenditures	672,930	(399,820)	22,547	1,336,661	(956,056)	-
OTHER FINANCING SOURCE (USES)						
Transfers in	-	515,000	-	-	1,578,400	-
Other sources	-	-	-	-	-	-
Transfers out	(273,731)	-	-	(366,006)	-	-
Net Financing Sources (Uses)	(273,731)	515,000	-	(366,006)	1,578,400	-
NET CHANGE IN FUND BALANCES	399,199	115,180	22,547	970,655	622,344	-
Fund Balances - Beginning	278,914	446,025	5,217	3,908,131	1,131,966	121,362
Restatement	-	-	-	-	-	(121,362)
Fund Balances - Beginning (As Restated)	278,914	446,025	5,217	3,908,131	1,131,966	-
Fund Balances - Ending	\$ 678,113	\$ 561,205	\$ 27,764	\$ 4,878,786	\$ 1,754,310	\$ -

See accompanying note to supplementary information.

Capital Facilities Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Capital Projects for Blended Component Units Fund	Bond Interest and Redemption Fund	Debt Service For Blended Component Units Fund	Non-Major Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,462,222
-	-	-	-	-	-	9,421,812
-	647,092	-	-	183,653	-	3,414,459
322,891	19,699	52	66,164	9,159,191	133,283	11,479,432
322,891	666,791	52	66,164	9,342,844	133,283	26,777,925
-	-	-	-	-	-	3,245,410
-	-	-	-	-	-	155,113
-	-	-	-	-	-	306
-	-	-	-	-	-	797,864
-	-	-	-	-	-	9,151,610
-	-	-	-	-	-	84,721
-	-	-	-	-	-	9,797
27,862	-	-	-	-	-	535,316
114,328	-	-	-	-	-	1,731,691
264,770	-	-	48,656	-	-	313,426
-	-	-	-	-	22,741	22,741
184,305	-	-	-	3,475,000	1,150,000	4,809,305
8,055	-	-	-	6,760,068	2,384,433	9,152,556
599,320	-	-	48,656	10,235,068	3,557,174	30,009,856
(276,429)	666,791	52	17,508	(892,224)	(3,423,891)	(3,231,931)
6,178	-	25,000	734	-	3,499,845	5,625,157
-	-	-	-	13,384	-	13,384
(622,324)	-	-	(6,178)	-	(734)	(1,268,973)
(616,146)	-	25,000	(5,444)	13,384	3,499,111	4,369,568
(892,575)	666,791	25,052	12,064	(878,840)	75,220	1,137,637
4,453,058	2,091,592	7,943	3,460,907	9,584,639	4,135,827	29,625,581
-	-	-	-	-	-	(121,362)
4,453,058	2,091,592	7,943	3,460,907	9,584,639	4,135,827	29,504,219
\$ 3,560,483	\$ 2,758,383	\$ 32,995	\$ 3,472,971	\$ 8,705,799	\$ 4,211,047	\$ 30,641,856

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, 2011**

(Amounts in thousands)	Actual Results for the Years					
	2010-2011		2009-2010		2008-2009	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Amount	Percent of Revenue
REVENUES						
Federal revenue	\$ 18,410	10.3	\$ 22,359	12.2	\$ 22,190	7.3
State and local revenue included in revenue limit	110,995	62.1	109,222	59.4	127,172	65.5
Other State revenue	26,539	14.9	27,732	15.1	27,570	16.5
Other local revenue	13,759	7.7	15,674	8.5	14,390	6.1
Tuition and transfers in	8,894	5.0	8,820	4.8	9,330	4.6
Total Revenues	178,596	100.0	183,807	100.0	200,652	100.0
EXPENDITURES						
Salaries and Benefits						
Certificated salaries	78,171	43.8	85,727	46.6	90,149	47.7
Classified salaries	29,348	16.4	30,730	16.7	32,119	15.3
Employee benefits	34,091	19.1	36,833	20.0	39,738	20.0
Total Salaries and Benefits	141,611	79.2	153,290	83.3	162,006	83.0
Books and supplies	6,382	3.6	6,371	3.5	8,934	5.9
Contracts and operating expenses	18,904	10.6	17,925	9.8	18,902	8.9
Capital outlay	1,429	0.8	685	0.4	1,486	0.8
Other outgo	845	0.5	939	0.5	1,013	0.2
Total Expenditures	169,170	94.7	179,210	97.5	192,341	98.8
EXCESS OF REVENUES OVER EXPENDITURES	9,426	5.3	4,597	2.5	8,311	1.2
OTHER FINANCING SOURCES (USES)						
Incoming transfers/other sources	1,581	0.9	186	0.1	1,321	1.2
Outgoing transfers	(5,252)	(2.9)	(4,478)	(2.4)	(5,365)	(2.0)
Total Financing Sources (Uses)	(3,671)	(2.1)	(4,292)	(2.3)	(4,044)	0.8
INCREASE IN FUND BALANCE	5,755	3.3	305	0.2	4,267	0.4
FUND BALANCE, BEGINNING	26,260		25,955		21,688	
RESTATEMENT	121					
FUND BALANCE, ENDING	\$ 32,136		\$ 26,260		\$ 25,955	
ENDING FUND BALANCE TO TOTAL REVENUES		18.0		14.3		10.9

See accompanying note to supplementary information.

HEMET UNIFIED SCHOOL DISTRICT

**NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2011**

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 Revenues, Expenditures, and Changes in Fund Balances and in Business-Type Activities, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts consist primarily of ARRA State Fiscal Stabilization Funds that in the previous period were recorded as revenues but were unspent. These unspent balances have been expended in the current period. In addition, Medi-Cal Billing Option and Medi-Cal Administrative Activities Program funds have been recorded in the current period as revenues that have not been expended as of June 30, 2011. These unspent balances are reported as legally restricted ending balances within the General Fund.

Description	<u>CFDA Number</u>	<u>Amount</u>
Total Federal Revenues from the Statement of Revenues,		
Expenditures and Changes in Fund Balances:		\$ 27,831,754
ARRA State Fiscal Stabilization Funds (SFSF)	84.394	5,541,735
Medi-Cal Billing Option	93.778	(869,335)
Medi-Cal Administrative Activities Program	93.778	(846,091)
Total Schedule of Expenditures of Federal Awards		<u>\$ 31,658,063</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>\$ 4,419</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.

HEMET UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2011

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *Education Code* Sections 46200 through 46206.

Districts must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirement, 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 Balances is included to provide information regarding the individual funds that have been included in the Non-Major Governmental Funds column on the Governmental Funds Balances Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances.

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 as of and for the year ended June 30, 2011, which collectively comprise Hemet Unified School District's basic financial statements and have issued our report thereon dated November 15, 2011. 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

The management of Hemet Unified School District is responsible for establishing and maintaining effective 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 15, 2011.

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 15, 2011



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND 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 Hemet Unified School District's compliance 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 and material effect on each of Hemet Unified School District's major Federal programs for the year ended June 30, 2011. 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 and material effect on each of its major Federal programs for the year ended June 30, 2011.

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 the 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 was not designed to 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 15, 2011



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Governing Board
 Hemet Unified School District
 Hemet, California

We have audited Hemet Unified School District's compliance with the requirements as identified in the *Standards and Procedures for Audit of California K-12 Local Educational Agencies 2010-11* applicable to Hemet Unified School District's government programs as noted below for the year ended June 30, 2011. Compliance with the requirements referred to above 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 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 2010-11* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about Hemet Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of Hemet Unified School District's compliance with those requirements.

In our opinion, Hemet Unified School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2011.

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:

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
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

	Procedures in Audit Guide	Procedures Performed
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
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 15, 2011

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

HEMET UNIFIED SCHOOL DISTRICT

**SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2011**

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified?	<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 Number</u>	<u>Name of Federal Program or Cluster</u>
84.027, 84.027A, 84.173, 84.173A, 84.391 ARRA, and 84.392 ARRA	Special Education (IDEA) Cluster (includes ARRA)
<u>84.394 ARRA</u>	<u>ARRA - State Fiscal Stabilization Fund (SFSF)</u>
	Education Technology State Grants Cluster
<u>84.318, 84.386 ARRA</u>	<u>(includes ARRA)</u>
	ARRA - State Fiscal Stabilization Fund (SFSF) -
<u>84.396C</u>	<u>Investing in Innovation</u>
<u>93.778</u>	<u>Medicaid Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 949,742</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

Type of auditors' report issued on compliance for programs:	<u>Unqualified</u>
---	--------------------

HEMET UNIFIED SCHOOL DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011**

None reported.

HEMET UNIFIED SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011**

None reported.

HEMET UNIFIED SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011**

None reported.

HEMET UNIFIED SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011**

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, 2011, 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 15, 2011, on the financial statements of Hemet Unified School District.

ASSOCIATED STUDENT BODY (ASB)

Alessandro High School – Stale Dated Checks

Observation

In reviewing the site's outstanding check listing for the June 30, 2011 reconciliation, we noted numerous checks dated as far back as June 2010 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".

Tahquitz High School – Stale Dated Checks

Observation

In reviewing the site's outstanding check listing for the June 30, 2011 reconciliation, we noted numerous checks 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".

Diamond Valley Middle School – Stale Dated Checks

Observation

In reviewing the site's outstanding check listing for the June 30, 2011 reconciliation, we noted numerous checks dated as far back as November 2009 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".

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.

Rancho Viejo Middle School-Ticket Logs

Observation

A master ticket log is not being used by the site to account for all tickets on hand and used during the year. It was noted that ticket sales reports are being prepared and properly documented, however there is no reconciliation to a master ticket log to ensure all the tickets have been accounted for.

Recommendation

A master ticket log should be maintained which notes the type of ticket, color, and current beginning ticket number in the role. The tickets should be safeguarded as if they were cash because stolen tickets would equate to lost revenue for the site since these tickets could be presented for admission rather than an individual paying for admission. When ticket rolls are issued, they should be logged out noting the beginning ticket number in the roll and to whom the roll was issued. When the ticket sales recap form is returned, the form should be reconciled to the log.

West Valley High School - Inventory Listing

Observation

The student store monthly inventory is not individually recognized on the ASB financial statements; therefore we were unable to determine if the correct amount of inventory is being reported.

Recommendation

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

West Valley High School - Change Fund

Observation

The site maintains a change cash fund in the amount of \$5,000 that is not reported on the balance sheet as an asset, but is considered a student body account.

Recommendation

The account needs to be recorded on the balance sheet and should only be used to make change for purchases made in the student store. Funds from prior years should not be used in the current fiscal year to finance ASB operations.

West Valley High School - Prohibited Disbursement

Observation

In reviewing the cash disbursement procedures at the site, we noted the following deficiency:
Verizon Wireless cell phone plan's for three personnel are paid by the ASB. (Auditor noted that accounts are in the name of West Valley High School ASB's name).

Recommendation

Expenditure of student funds for the following items is not usually allowable because they do not directly promote the general welfare, morale or educational experience of the students; nor are they considered a District responsibility, or are a gift of public funds:

- Salaries or supplies that are the responsibility of the District. Some examples include teachers' salaries and negotiated stipends, curriculum supplies, and office supplies and equipment.
- Repair and maintenance of District-owned facilities and equipment
- Articles for the personal use of District employees
- Expenses for faculty meetings
- Expenses for parent-teacher organizations such as the PTA or boosters
- Large awards
- Gifts of any kind
- Employee appreciation meals
- Employee clothing/attire
- Donations
- Cash awards to anyone, because internal controls cannot be established and documented.

Because student body funds are to benefit students as a group and not individuals, awards and scholarships are generally discouraged.

2010 OBSERVATIONS AND RECOMMENDATIONS

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 bank's 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.

Current Status

Implemented

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

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

Current Status

Implemented

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 numerous checks 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".

Current Status

Implemented

Observation

In reviewing the site's 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".

Current Status

Implemented

Observation

In reviewing the outstanding check listing for the June reconciliation, we noted numerous checks 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".

Current Status

Not implemented

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.

Current Status

Partially implemented, see current year comment regarding Hemet High School and West Valley High School.

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.

Current Status

Implemented

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.

Current Status

Implemented

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 moneies 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 the 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 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.

Current Status

Implemented

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.

Current Status

Implemented

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 include in ASB minutes prior to purchases being made.

Current Status

Implemented

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). (The 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.

Current Status

Implemented

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.

Current Status

Implemented

Governing Body
Hemet Unified School 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

Pre-numbered 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.

Current Status

Implemented

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

Vavrinek, Trine, Day & Co., LLP
Rancho Cucamonga, California
November 15, 2011