

**HEMET UNIFIED SCHOOL DISTRICT**

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ANNUAL FINANCIAL REPORT

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**JUNE 30, 2012**

# HEMET UNIFIED SCHOOL DISTRICT

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***FINANCIAL SECTION***

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## 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, 2012, 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 2011-2012*, 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 previously 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, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2012, 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 assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as management's discussion and analysis on pages 4 through 16, and the budgetary comparison information and schedule of other post employment benefits on pages 67 and 68 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements. The Schedule of Expenditures of Federal Awards, as required by *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133)* and other supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California  
November 19, 2012



**Dr. Barry L. Kayrell**  
Superintendent

**Dr. LaFaye Platter**  
Deputy Superintendent

**Dr. Sally Cawthon**  
Assistant Superintendent

**Vince Christakos**  
Assistant Superintendent

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**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) (2011-2012) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2012, with comparative information from 2011. 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.

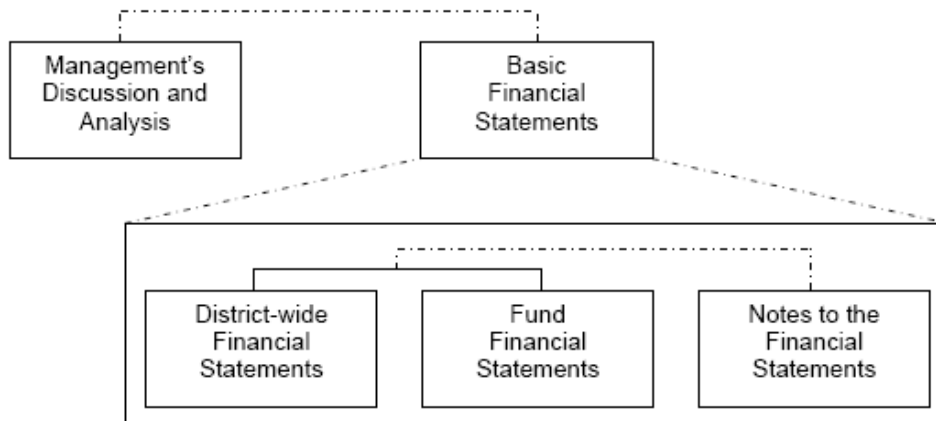
# HEMET UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

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**Figure 1**

**Organization of Hemet Unified School District's Annual Financial Report**



### ***FINANCIAL HIGHLIGHTS OF THE PAST YEAR***

- Total net assets increased by \$1.2 million, or 0.40 percent, from the prior year for a total of \$295 million as a result of changes in liabilities and assets.
- Revenues, transfers in, and other financing sources for all governmental funds totaled \$220.4 million, \$8.1 million less than expenses and other financing uses. The deficit spending is primarily attributed to spending down bond anticipation notes for capital projects.
- On April 19, 2011, Resolution 2059, establishing a District fund balance reserve policy was adopted. The reserve level was set to five percent of combined General Fund expenditures at that time.
- The General Fund's audited ending balance increased by \$3.3 million from the prior year. The restricted portion of the General Fund's ending fund balance decreased by \$118,000. The unrestricted General Fund ending balance increased \$3.4 million as a result of budget reduction and conservation measures.
- A re-offering of the 2006 Certificates of Participation (COPs) was approved on August 2, 2011, in order to take advantage of lower interest rates. In 2011-2012, the District also re-funded \$25 million of the Series B, Series C, and Series D of the District's 2002 General Obligation Bonds to achieve savings in debt service obligations, entered into a \$945,509 capital lease for buses and vehicles, and issued a \$3.4 million Supplemental Early Retirement Plan for certificated employees.
- A total of \$29,945,000 in short-term Tax Revenue Anticipation Notes (TRANs) was issued in 2011-2012 to cover cash shortfalls as a result of state apportionment cash deferrals. The TRANs were issued in two installments, a regular TRAN in July totaling \$22.98 million and a cross-year TRAN in February totaling \$6.96 million.
- The District's revenue limit funding was based on current year average daily attendance (ADA). 2011-2012 P-2 ADA, excluding ADA for charter school students, was reported at 20,412. Because the district continued to experience an enrollment decline, revenue limit ADA was reported at the prior year level of 20,621.
- The District filed a Qualified Second Interim report in March 2012, and submitted a Third Interim Report in June 2012.



**HEMET UNIFIED SCHOOL DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2012**

Figure 2 summarizes the District's Combined General Fund activities for the 2011-2012 fiscal year. As indicated in the Table, at June 30, 2012, the District's total revenues were \$0.8 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 30<sup>th</sup>. 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. No portion of the General Fund's ending balance was identified as unassigned or unappropriated at year-end.

**Figure 2**

<b>Combined General Fund</b>	2nd Interim Projection	Audited Actuals	Difference
Total Revenues	\$178,836,999	\$178,042,088	<b>\$(794,911)</b>
Total Expenditures	179,233,243	175,771,130	<b>(3,462,113)</b>
Other Financial Activities	1,166,502	<b>(1,070,752)</b>	<b>(2,237,254)</b>
<b>Net Increase(Decrease)</b>	<b>\$770,258</b>	<b>\$1,200,206</b>	<b>\$429,948</b>
Available Fund Balance (a)	\$ -0-	\$ -0-	\$ -0-

**REVENUE SUMMARY**

Revenue limit funding generated \$110.2 million of the District's \$178.0 million General Fund revenues for the 2011-2012 fiscal year. Revenue limit as a percentage of total revenue, decreased from 62.8 percent in the prior year to 61.5 percent in 2011-2012.

As shown in Figure 3, there was a decrease of 227 non-charter P-2 Average Daily Attendance (ADA) from the prior year. Because the District experienced a decline in ADA from 2010-2011, revenue limit funding was based on the prior year (2010-2011) ADA adjusted for students transferring in and out of charter schools and other factors. With those adjustments, prior year ADA for 2011-2012 revenue limit purposes was re-calculated to 20,621.

**Figure 3**

Grade Level	2010-2011 P-2 ADA	2011-2012 P-2 ADA	P-2 ADA Difference	Adjusted 2010-2011 ADA for 2011-2012 Revenue Limit Funding
Elementary	13,960	13,805	<b>-155</b>	13,942
Secondary	6,679	6,607	<b>-72</b>	6,679
<b>Total K-12</b>	<b>20,718</b>	<b>20,412</b>	<b>-227</b>	<b>20,621</b>
<b>Charters</b>	430	490	<b>60</b>	N/A

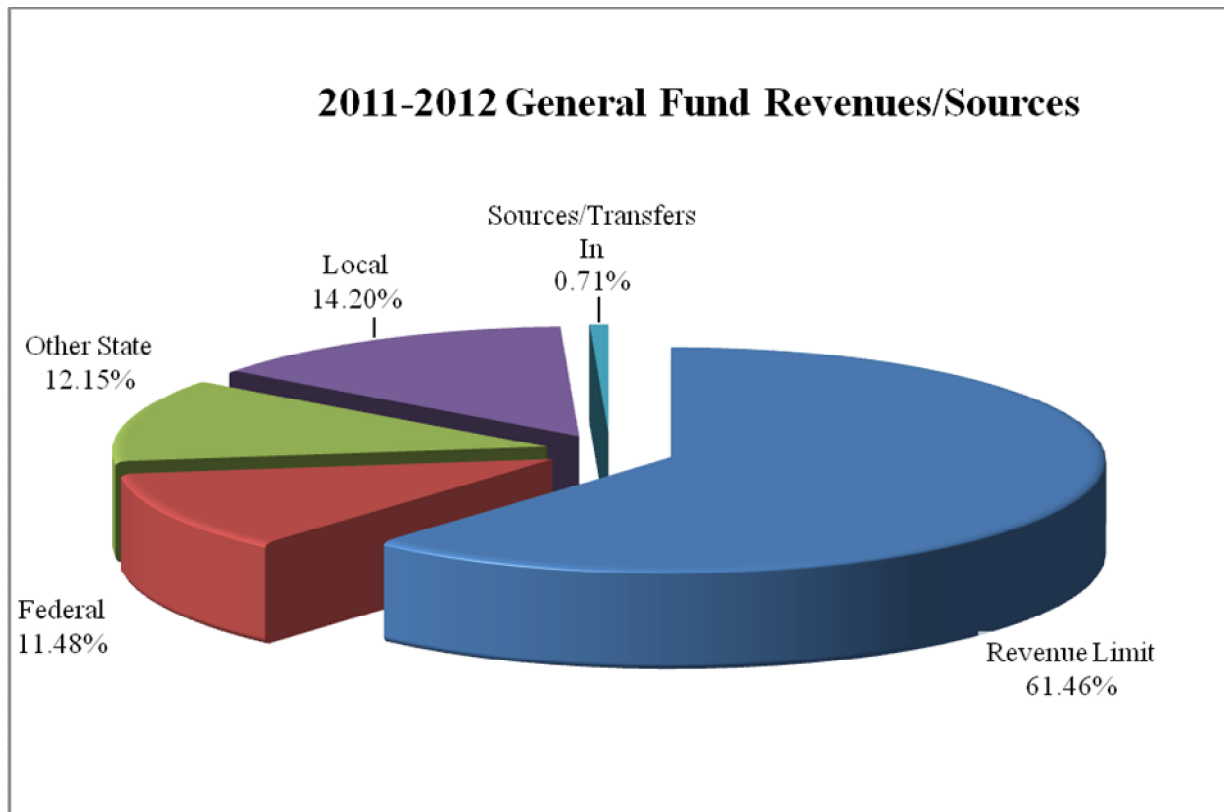
**HEMET UNIFIED SCHOOL DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2012**

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*Federal, Other State and Local Revenues*

Combined General Fund Federal, other State, and local revenues at year-end were \$69.1 million, or 1.3 percent, more than the prior year's total of \$65.85 million.



# HEMET UNIFIED SCHOOL DISTRICT

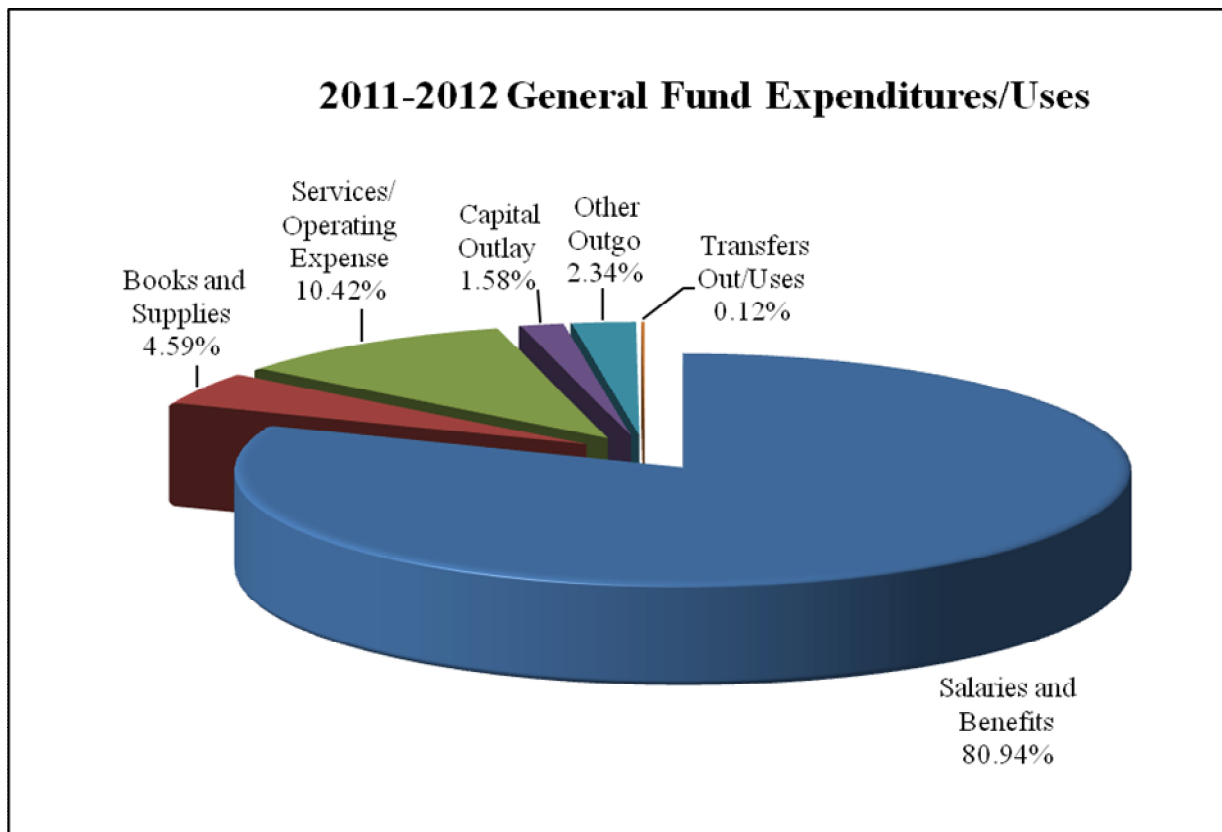
## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

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### EXPENDITURE SUMMARY

#### Salaries and Benefits

Salaries and benefits represent a substantial percentage of all District expenditures. In 2011-2012, salaries and benefits accounted for 80.94 percent of all combined General Fund expenditures. In relation to unrestricted General Fund expenditures only, salaries and benefits are 88.2 percent of total costs. Expenditures for combined General Fund salaries and benefits totaled \$142.4 million. Salaries and benefits show an increase of \$4.4 million over total costs in the prior year. The increase of \$2.3 million of it is related to the re-categorization of SERP payments from the services and operating expenses category to employee benefits in 2011-2012. The \$2.1 million increase balance is related to step and column movement for all employees and added staff in transportation and special education to support new programs and service contracts.



# HEMET UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

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### *Operating Expenditures*

At the close of the 2011-2012 fiscal year, combined General Fund expenses in the books and supplies category totaled \$8.1 million, and were \$1.7 million more than reported for the prior year. The increase is related to the intervention initiative and the approximately 2,000 reconditioned computers purchased for school sites from one-time or carry over balances in restricted funds, including Title I.

Services and other operating expenses, which include consultants, maintenance contracts, legal fees, and utilities, ended the year at \$18.3 million, or approximately \$300,000 less than was spent in this category in 2010-2011. A decrease of \$2.3 million in the services and other operating expenses category for reclassification of SERP payments to employee benefits was offset by an increase for software expenses related to intervention initiatives.

### ***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.

# HEMET UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

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### ***REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS***

#### ***Fund Financial Statements***

The fund financial statements provide detailed information about the most significant funds - not the District as a whole. Some funds are required to be established by State law and by bond covenants. However, management establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money that it receives from the U.S. Department of Education.

***Governmental Funds*** - The District's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The differences of results in the governmental fund financial statements to those in the government-wide financial statements are explained in a reconciliation following each governmental fund financial statement.

***Proprietary Funds*** - When the District charges users for the services it provides, whether to outside customers or to other departments within the District, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the *Statement of Net 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, 2012

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### *FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE*

#### *Net Assets*

The District's net assets were \$295,276,110 for the fiscal year ended June 30, 2012. 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**

	<u>Governmental Activities</u>	
	<u>2012</u>	<u>2011</u>
<b>Assets</b>		
Current and other assets	\$ 115,576,692	\$ 136,803,014
Capital assets	455,925,985	447,739,896
<b>Total Assets</b>	<u>571,502,677</u>	<u>584,542,910</u>
<b>Liabilities</b>		
Current liabilities	17,373,226	30,948,983
Long-term obligations	258,853,341	259,501,376
<b>Total Liabilities</b>	<u>276,226,567</u>	<u>290,450,359</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	255,838,353	253,685,149
Restricted	21,282,678	23,327,906
Unrestricted	18,155,079	17,079,496
<b>Total Net Assets</b>	<u>\$ 295,276,110</u>	<u>\$ 294,092,551</u>

# HEMET UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

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### *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 18. Table 2 takes the information from the Statement for the year.

**Table 2**

	<u>Governmental Activities</u>	
	<u>2012</u>	<u>2011</u>
<b>Revenues</b>		
Program Revenues:		
Charges for services	\$ 9,925,900	\$ 7,993,877
Operating grants and contributions	52,869,306	44,596,858
Capital grants and contributions	3,836	666,792
General Revenues:		
Federal and State aid	108,757,589	109,125,973
Property taxes	33,811,188	33,361,048
Other general revenues	7,209,302	10,644,607
<b>Total Revenues</b>	<u>212,577,121</u>	<u>206,389,155</u>
<b>Expenses</b>		
Instruction-related	142,816,744	137,961,296
Pupil services	29,264,615	28,499,376
Administration	13,619,135	9,467,704
Plant services	13,460,442	14,683,920
Ancillary	1,865,487	1,812,106
Other	10,367,139	11,571,587
<b>Total Expenses</b>	<u>211,393,562</u>	<u>203,995,989</u>
<b>Change in Net Assets</b>	<u>\$ 1,183,559</u>	<u>\$ 2,393,166</u>

### *Governmental Activities*

As reported in the *Statement of Activities* on page 18, the cost of all governmental activities in 2011-2012 was \$211,393,562. The amount that our taxpayers ultimately financed for these activities through local taxes was \$33,811,188. The remaining cost of was paid by those who benefited from the programs \$9,925,900 or by other governments and organizations who subsidized certain programs with \$52,873,142 in grants and contributions. The remaining "public benefit" portion of our governmental activities were paid with \$108,757,589 in Federal and State aid and \$7,209,302 with other General Fund revenue sources such as interest and general entitlements.

**HEMET UNIFIED SCHOOL DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2012**

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	
	2012	2011	2012	2011
Instruction	\$ 122,046,323	\$ 116,825,232	\$ 94,302,193	\$ 96,230,457
Instruction-related activities	20,770,421	21,136,064	13,211,671	14,348,340
Pupil services	29,264,615	28,499,376	5,727,271	6,524,027
Administration	13,619,135	9,467,704	11,763,777	7,471,645
Plant services	13,460,442	14,683,920	12,922,708	13,954,342
Ancillary services	1,865,487	1,812,106	1,855,605	1,806,638
Other	10,367,139	11,571,587	8,811,295	10,403,013
<b>Total</b>	<b>\$ 211,393,562</b>	<b>\$ 203,995,989</b>	<b>\$ 148,594,520</b>	<b>\$ 150,738,462</b>

***THE DISTRICT'S FUNDS***

Upon completion of the 2011-2012 fiscal year, the District's governmental funds reported a combined fund balance of \$88,945,559, a decrease of \$8,133,902 from 2010-2011 (Table 4).

**Table 4**

	Balances and Activity			
	July 1, 2011	Revenues	Expenditures	June 30, 2012
General Fund	\$ 32,136,402	\$ 183,553,407	\$ 180,228,105	\$ 35,461,704
Building Fund	34,300,393	2,982,608	13,254,851	24,028,150
Non-Major Governmental Funds	30,641,856	33,836,400	35,022,551	29,455,705
<b>Total</b>	<b>\$ 97,078,651</b>	<b>\$ 220,372,415</b>	<b>\$ 228,505,507</b>	<b>\$ 88,945,559</b>



# HEMET UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

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### *General Fund Budgetary Highlights*

Over the course of the year, the District revised the 2011-2012 budget to address changes in revenues and expenditures that were unanticipated at the time the original budget was adopted in June 2011. Mid-year adjustments to the District's budget were approved by the Board of Education on March 16, 2012, 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 67.)

Multi-year projections in the 2011-2012 Second Interim report indicated potential budget shortfalls in one or more of the two out-years should possible increased funding reductions at the State level materialize. The possible budget shortfalls in the out-years required the District to self-certify a qualified status for the first time. Because the District self-certified as qualified in the Second Interim, it was required to complete and file a Third Interim report. The Third Interim report was approved by the Board on June 5, 2012. No improvement to the District's multi-year projections was shown at that time.

### **CAPITAL ASSET AND DEBT ADMINISTRATION**

#### *Capital Assets*

At June 30, 2012, the District had \$455,925,985 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 \$8,186,089, or 1.83 percent, over the prior year (Table 5).

**Table 5**

	Governmental Activities	
	2012	2011
Land	\$ 24,501,736	\$ 24,500,836
Construction in progress	28,001,717	11,884,413
Buildings and improvements	394,259,367	405,288,624
Equipment	9,163,165	6,066,023
<b>Total</b>	<b>\$ 455,925,985</b>	<b>\$ 447,739,896</b>

This year's additions totaled \$8.2 million, with the majority of expenses related to the capital facilities improvement project at Hemet High School and the District-wide solar project. The District's capital assets additions, deletions and balances are presented in Note 4 in these financial statements.

To fund the District's 2011-2012 capital facilities projects, a portion of the \$25 million in Bond Anticipation Notes (BANs) was used. The BANs were issued through the Quality School Construction Bonds (QSCB) program in July 2010. Funding from the State School Construction program, as well as balances remaining in the 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 planned for the 2012-2013 year include a the first phase of a modernization projects at Acacia Middle school in addition to miscellaneous small projects at other district schools.

# HEMET UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

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### *Long-Term Obligations*

At June 30, 2012, the District had \$224,628,692 in general obligation bonds, bond anticipation notes, and certificates of participation outstanding compared to \$229,590,800 on June 30, 2011, a decrease of \$4,926,108, or 2.16 percent. Other obligations consisted of those items listed in Table 6 below.

**Table 6**

	Governmental Activities	
	2012	2011
General obligation bonds	\$ 145,126,229	\$ 148,867,917
Bond anticipation notes	24,700,000	24,600,000
Certificates of participation	54,802,463	56,122,883
Lease revenue bonds	3,971,958	4,161,436
Capital leases	4,079,705	3,722,464
Accumulated vacation	829,329	798,966
SERP	7,673,739	6,396,692
Claims liability	4,228,296	4,158,880
Net OPEB obligation	13,441,622	10,672,138
<b>Total</b>	<b>\$ 258,853,341</b>	<b>\$ 259,501,376</b>

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, 2012

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Table 7 lists the District's 2012-2013 budget assumptions. These assumptions were based on the most current information available to the District at the time the budget was adopted in June 2012. 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 2012-2013 budget, which includes site and department allocations for both staffing and operating budgets.

**Table 7**

### 2011-2012 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 and Column Percent of Salaries	1.60%
Deferred/Routine Maintenance - Percent 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](mailto:vchristakos@hemetusd.k12.ca.us).

# HEMET UNIFIED SCHOOL DISTRICT

## STATEMENT OF NET ASSETS JUNE 30, 2012

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Deposits and investments	\$ 59,049,141
Receivables	52,659,366
Prepaid expenses	1,540
Stores inventories	725,342
Deferred cost on issuance	3,141,303
Capital assets	
Land and construction in process	52,503,453
Other capital assets	505,003,492
Less: Accumulated depreciation	(101,580,960)
Total Capital Assets	<u>455,925,985</u>
<b>TOTAL ASSETS</b>	<u><u>571,502,677</u></u>
<b>LIABILITIES</b>	
Accounts payable	5,610,115
Interest payable	3,099,072
Deferred revenue	197,653
Claims liabilities	1,501,386
Current loans	6,965,000
Long-term obligations	
Current portion of long-term obligations	9,066,621
Noncurrent portion of long-term obligations	249,786,720
Total Long-Term Obligations	<u>258,853,341</u>
<b>TOTAL LIABILITIES</b>	<u><u>276,226,567</u></u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	255,838,353
Restricted for:	
Debt service	10,106,409
Capital projects	2,062,055
Educational programs	9,114,214
Unrestricted	18,155,079
<b>TOTAL NET ASSETS</b>	<u><u>\$ 295,276,110</u></u>

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

**HEMET UNIFIED SCHOOL DISTRICT**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2012**

Functions/Programs	Expenses	Program Revenues			Governmental Activities	Net (Expenses) Revenues and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions		
<b>Governmental Activities:</b>						
Instruction	\$ 122,046,323	\$ 20,813	\$ 27,719,481	\$ 3,836		\$ (94,302,193)
Instruction-related activities:						
Supervision of instruction	6,562,909	990	6,020,810	-		(541,109)
Instructional library, media and technology	1,106,482	19	889,303	-		(217,160)
School site administration	13,101,030	118	647,510	-		(12,453,402)
Pupil services:						
Home-to-school transportation	10,149,061	8,191,125	2,057,720	-		99,784
Food services	9,825,116	884,396	8,733,196	-		(207,524)
All other pupil services	9,290,438	4,302	3,666,605	-		(5,619,531)
Administration:						
Data processing	2,383,946	1,547	13,326	-		(2,369,073)
All other administration	11,235,189	395,168	1,445,317	-		(9,394,704)
Plant services	13,460,442	37,107	500,627	-		(12,922,708)
Ancillary services	1,865,487	18	9,864	-		(1,855,605)
Community services	68,447	-	-	-		(68,447)
Interest on long-term obligations	10,291,743	-	-	-		(10,291,743)
Other outgo	6,949	390,297	1,165,547	-		1,548,895
<b>Total Governmental Activities</b>	<b>\$ 211,393,562</b>	<b>\$ 9,925,900</b>	<b>\$ 52,869,306</b>	<b>\$ 3,836</b>		<b>(148,594,520)</b>

General revenues and subventions:

Property taxes, levied for general purposes	20,661,530
Property taxes, levied for debt service	10,478,014
Taxes levied for other specific purposes	2,671,644
Federal and State aid not restricted to specific purposes	108,757,589
Interest and investment earnings	234,469
Transfers between agencies	1,370,193
Miscellaneous	5,604,640
<b>Subtotal, General Revenues</b>	<b>149,778,079</b>
<b>Change in Net Assets</b>	<b>1,183,559</b>
<b>Net Assets - Beginning</b>	<b>294,092,551</b>
<b>Net Assets - Ending</b>	<b>\$ 295,276,110</b>

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

**HEMET UNIFIED SCHOOL DISTRICT**

**GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2012**

	<u>General Fund</u>	<u>Building Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Deposits and investments	\$ 366,657	\$ 25,008,827	\$ 26,904,509	\$ 52,279,993
Receivables	49,683,084	26,102	2,940,041	52,649,227
Due from other funds	541,508	-	115,715	657,223
Prepaid expenditures	1,540	-	-	1,540
Stores inventories	255,594	-	469,748	725,342
<b>Total Assets</b>	<u>\$ 50,848,383</u>	<u>\$ 25,034,929</u>	<u>\$ 30,430,013</u>	<u>\$ 106,313,325</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 4,106,061	\$ 1,006,639	\$ 432,800	\$ 5,545,500
Due to other funds	4,117,965	140	541,508	4,659,613
Current loans	6,965,000	-	-	6,965,000
Deferred revenue	197,653	-	-	197,653
<b>Total Liabilities</b>	<u>15,386,679</u>	<u>1,006,779</u>	<u>974,308</u>	<u>17,367,766</u>
<b>Fund Balances:</b>				
Nonspendable	282,134	-	469,748	751,882
Restricted	4,333,372	24,028,150	25,471,648	53,833,170
Committed	-	-	2,348,185	2,348,185
Assigned	22,046,198	-	1,166,124	23,212,322
Unassigned	8,800,000	-	-	8,800,000
<b>Total Fund Balances</b>	<u>35,461,704</u>	<u>24,028,150</u>	<u>29,455,705</u>	<u>88,945,559</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 50,848,383</u>	<u>\$ 25,034,929</u>	<u>\$ 30,430,013</u>	<u>\$ 106,313,325</u>

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

**HEMET UNIFIED SCHOOL DISTRICT**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2012**

<b>Total Fund Balance - Governmental Funds</b>		\$ 88,945,559
<b>Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:</b>		
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:	\$557,506,945	
Accumulated depreciation is:	<u>(101,580,960)</u>	
Net Capital Assets		455,925,985
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.		3,141,303
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.		(3,099,072)
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:		4,987,380
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	143,320,000	
Premium on issuance, net of amortization	1,806,229	
Bond Anticipation Notes	25,000,000	
Discount on issuance, net of amortization	(300,000)	
Certificates of participation	54,921,010	
Discount on issuance, net of amortization	(118,547)	
Lease revenue bonds	3,980,000	
Discount on issuance, net of amortization	(8,042)	
Capital lease obligations	4,079,705	
Compensated absences - accumulated vacation	829,329	
Supplemental early retirement program	7,673,739	
Net OPEB obligation	<u>13,441,622</u>	
Total Long-Term Obligations		<u>(254,625,045)</u>
<b>Total Net Assets - Governmental Activities</b>		<u><u>\$295,276,110</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, 2012

	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Revenue limit sources	\$110,214,785	\$ -	\$ 2,701,403	\$ 112,916,188
Federal sources	20,583,365	-	10,007,610	30,590,975
Other State sources	26,017,337	-	4,214,919	30,232,256
Other local sources	25,463,422	145,840	13,100,636	38,709,898
<b>Total Revenues</b>	<b>182,278,909</b>	<b>145,840</b>	<b>30,024,568</b>	<b>212,449,317</b>
<b>EXPENDITURES</b>				
Current				
Instruction	107,043,211	-	3,410,135	110,453,346
Instruction-related activities:				
Supervision of instruction	6,325,717	-	140,676	6,466,393
Instructional library, media and technology	1,063,312	-	21,468	1,084,780
School site administration	11,768,447	-	793,225	12,561,672
Pupil services:				
Home-to-school transportation	11,484,932	-	-	11,484,932
Food services	39,109	-	9,337,248	9,376,357
All other pupil services	9,158,193	-	19,696	9,177,889
Administration:				
Data processing	2,472,089	-	8,160	2,480,249
All other administration	8,058,675	-	879,128	8,937,803
Plant services	15,222,525	448	1,529,811	16,752,784
Facility acquisition and construction	147,984	13,254,403	1,349,954	14,752,341
Ancillary services	1,861,061	-	420	1,861,481
Community services	68,166	-	-	68,166
Other outgo	6,949	-	-	6,949
Debt service				
Principal	992,854	-	4,900,000	5,892,854
Interest and other	852,211	-	9,180,542	10,032,753
<b>Total Expenditures</b>	<b>176,565,435</b>	<b>13,254,851</b>	<b>31,570,463</b>	<b>221,390,749</b>
<b>Excess (Deficiency) of Revenues</b>				
<b>Over Expenditures</b>	<b>5,713,474</b>	<b>(13,109,011)</b>	<b>(1,545,895)</b>	<b>(8,941,432)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	328,989	2,758,383	3,811,832	6,899,204
Other sources	945,509	78,385	-	1,023,894
Transfers out	(3,662,670)	-	(3,452,088)	(7,114,758)
<b>Net Financing Sources (Uses)</b>	<b>(2,388,172)</b>	<b>2,836,768</b>	<b>359,744</b>	<b>808,340</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>3,325,302</b>	<b>(10,272,243)</b>	<b>(1,186,151)</b>	<b>(8,133,092)</b>
<b>Fund Balance - Beginning</b>	<b>32,136,402</b>	<b>34,300,393</b>	<b>30,641,856</b>	<b>97,078,651</b>
<b>Fund Balances - Ending</b>	<b>\$ 35,461,704</b>	<b>\$ 24,028,150</b>	<b>\$ 29,455,705</b>	<b>\$ 88,945,559</b>

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 STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2012**

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**Total Net Change in Fund Balances - Governmental Funds** \$ (8,133,092)

**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	\$ 21,425,561	
Depreciation expense	<u>(13,239,472)</u>	
Net Expense Adjustment		8,186,089

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. (945,509)

In the Statement of Activities, certain operating expenses - compensated absences (vacations) and special termination benefits (early retirement) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, special termination benefits used was less than amounts earned by \$1,277,047. Vacation used was less than amounts earned by \$30,363. (1,307,410)

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 \$2,769,484. (2,769,484)

Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term obligations in the Statement of Net Assets and does not affect the Statement of Activities:

General obligation bonds	3,660,000
Certificates of participation	1,325,665
Lease revenue bonds	190,000
Capital lease obligations	588,268

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, 2012**

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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	(80,927)	
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>(2,613)</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.

136,715

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.

519,101

**Change in Net Assets of Governmental Activities**

\$ 1,183,559

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

**HEMET UNIFIED SCHOOL DISTRICT**

**PROPRIETARY FUND  
STATEMENT OF NET ASSETS  
JUNE 30, 2012**

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	<b>Governmental Activities</b>
	<b>Internal Service Fund</b>
<b>ASSETS</b>	
<b>Current Assets</b>	
Deposits and investments	\$ 6,769,148
Receivables	10,139
Due from other funds	4,002,390
<b>Total Assets</b>	<u>10,781,677</u>
<b>LIABILITIES</b>	
<b>Current Liabilities</b>	
Accounts payable	64,615
Claims liability	1,501,386
<b>Total Current Liabilities</b>	<u>1,566,001</u>
<b>Noncurrent Liabilities</b>	
Long-term claims liability	4,228,296
<b>Total Liabilities</b>	<u>5,794,297</u>
<b>NET ASSETS</b>	
Unrestricted	4,987,380
<b>Total Net Assets</b>	<u>\$ 4,987,380</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, 2012**

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	<b>Governmental Activities</b>
	<b>Internal Service Fund</b>
<b>OPERATING REVENUES</b>	
Charges to other funds and miscellaneous revenues	\$ 7,052,180
<b>OPERATING EXPENSES</b>	
Payroll costs	71
Professional and contract services	6,779,441
Supplies and materials	18,539
<b>Total Operating Expenses</b>	<u>6,798,051</u>
<b>Operating Gain</b>	<u>254,129</u>
<b>NONOPERATING REVENUES</b>	
Interest income	<u>49,418</u>
<b>Income Before Transfers</b>	303,547
Transfers in	<u>215,554</u>
<b>Change in Net Assets</b>	519,101
<b>Total Net Assets - Beginning</b>	<u>4,468,279</u>
<b>Total Net Assets - Ending</b>	<u><u>\$ 4,987,380</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, 2012**

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	<b>Governmental Activities</b>
	<b>Internal Service Fund</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash receipts from customers	\$ 3,052,479
Cash payments to suppliers for goods and services	(18,539)
Cash payments for administrative expense	(71)
Other operating cash payments	(7,751,774)
Net Cash Used in Operating Activities	<u>(4,717,905)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Transfers from other funds	<u>215,554</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest on investments	<u>64,201</u>
Net Decrease in Cash and Cash Equivalents	(4,438,150)
Cash and Cash Equivalents - Beginning	11,207,298
Cash and Cash Equivalents - Ending	<u><u>\$ 6,769,148</u></u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH USED IN OPERATING ACTIVITIES:</b>	
Operating income	\$ 254,129
Adjustments to reconcile operating loss to net cash used by operating activities:	
Changes in assets and liabilities:	
Due from other funds	(3,999,701)
Accounts payable	(21,307)
Claims liabilities	(951,026)
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<u><u>\$ (4,717,905)</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, 2012**

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	<b>Agency Funds</b>		
	<b>Debt Service Fund for Special Tax Bonds</b>	<b>Associated Student Body</b>	<b>Total Agency Funds</b>
<b>ASSETS</b>			
Deposits and investments	\$ 5,025,614	\$ 1,152,327	\$ 6,177,941
Stores inventories	-	4,152	4,152
<b>Total Assets</b>	<b>\$ 5,025,614</b>	<b>\$ 1,156,479</b>	<b>\$ 6,182,093</b>
<b>LIABILITIES</b>			
Due to student groups	\$ -	\$ 1,156,479	\$ 1,156,479
Due to bond holders	5,025,614	-	5,025,614
<b>Total Liabilities</b>	<b>\$ 5,025,614</b>	<b>\$ 1,156,479</b>	<b>\$ 6,182,093</b>

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

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Financial Reporting Entity

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

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

#### Component Units

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

The Golden West Schools Financing Authority (the Authority) and the Hemet Unified School District School Facilities Corporation (the Corporation) financial activity are presented in the financial statements as the Capital Projects 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, 2012

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### Other Related Entity

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

Southern California Regional Liability Excess Fund (So Cal ReLiEF)

### Basis of Presentation - Fund Accounting

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

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

#### Major Governmental Funds

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

**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 from specific revenue sources (other than trusts, major capital projects, or debt service) that are restricted or committed to the financing of particular activities and that compose a substantial portion of the inflows of the fund. Additional resources that are restricted, committed, or assigned to the purpose of the fund may also be reported in the fund.

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

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



## HEMET UNIFIED SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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**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.

**Capital Project Funds** The Capital Project funds are used to account for and report financial resources that are restricted, committed, or assigned to the acquisition or construction of major 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).

**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).

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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

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

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

**Fiduciary Funds** Fiduciary funds are used to account for assets held in trustee or agent capacity for others that cannot be used to support the District's own programs. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. The key distinction between trust and agency funds is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

### **Basis of Accounting - Measurement Focus**

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

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

Net 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.

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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**Fund Financial Statements** Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements.

**Governmental Funds** All governmental funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund 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.

**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.

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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

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

**Expenses/Expenditures** On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Principal and interest on long-term obligations, which has not matured, are recognized when paid in the governmental funds. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

### **Cash and Cash Equivalents**

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

### **Investments**

Investments held at June 30, 2012, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

### **Stores Inventories**

Inventories consist of expendable food and supplies held for consumption. Inventories are stated at cost, on the first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental-type funds when used.

### **Capital Assets and Depreciation**

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the District. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

## HEMET UNIFIED SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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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.

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.

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

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### 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, 2012, 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, 2012, fund balances of the governmental funds are classified as follows:

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

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

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

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

**Unassigned** - all other spendable amounts.

### Spending Order Policy

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

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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### Minimum Fund Balance Policy

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

### Net 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, 2012. 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 \$21,282,678 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 are the primary activity of the fund. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

### Interfund Activity

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

### Estimates

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

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

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### **Budgetary Data**

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

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

### **Property Tax**

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

### **New Accounting Pronouncements**

In 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, 2012**

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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.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*—an amendment of Statement No. 27. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by State and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not covered by the scope of this Statement.

This Statement is effective for fiscal years beginning after June 15, 2014. Earlier implementation is encouraged.

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

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### NOTE 2 - DEPOSITS AND INVESTMENTS

#### Summary of Deposits and Investments

Deposits and investments as of June 30, 2012, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 59,049,141
Fiduciary funds	6,177,941
Total Deposits and Investments	<u>\$ 65,227,082</u>

Deposits and investments as of June 30, 2012, consist of the following:

Cash on hand and in banks	\$ 4,928,279
Cash in revolving	25,000
Investments	60,273,803
Total Deposits and Investments	<u>\$ 65,227,082</u>

#### Policies and Practices

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

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

## HEMET UNIFIED SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

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#### General Authorizations

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

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

#### 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, 2012**

**Specific Identification**

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

Investment Type	Fair Value	Maturity Date
Federal Home Loan Banks	\$ 3,297,155	9/14/2012
Federal Home Loan Banks	626,057	3/20/2013
Riverside County Investment Pool	46,662,081	431*
Federal National Mortgage Association - MTN	1,373,977	3/16/2015
Money Market Mutual Funds	7,128,567	7/1/2012
Private Export Funding Note	1,140,350	11/15/2015
Total	<u>\$ 60,228,187</u>	

\* Weighted average days to maturity.

**Credit Risk**

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investments in the county pool are not required to be rated.

Investment Type	Minimum Legal Rating	Rating as of June 30, 2012	Fair Value
Federal Home Loan Banks	AA	AAA	\$ 3,297,155
Federal Home Loan Banks	AA	AAA	626,057
Riverside County Investment Pool	Not Required	Aaa-bf	46,662,081
Federal National Mortgage Association - MTN	AA	AAA	1,373,977
Money Market Mutual Funds	Not Required	Not Required	7,128,567
Private Export Funding Note	AA	AAA	1,140,350
Total			<u>\$ 60,228,187</u>

**HEMET UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

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**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, 2012, the District's bank balance was not exposed to custodial credit risk.

**NOTE 3 - RECEIVABLES**

Receivables at June 30, 2012, 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
Federal Government					
Categorical aid	\$ 2,243,063	\$ -	\$ 1,246,522	\$ -	\$ 3,489,585
State Government					
Apportionment	37,312,804	-	971,796	-	38,284,600
Categorical aid	3,384,283	-	531,848	-	3,916,131
Lottery	1,603,588	-	33,107	-	1,636,695
Local Government					
Interest	10,849	26,102	6,465	10,139	53,555
Other local sources	5,128,497	-	150,303	-	5,278,800
Total	<u>\$49,683,084</u>	<u>\$ 26,102</u>	<u>\$ 2,940,041</u>	<u>\$ 10,139</u>	<u>\$52,659,366</u>

**HEMET UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012
<b>Governmental Activities</b>				
Capital Assets Not Being Depreciated				
Land	\$ 24,500,836	\$ 900	\$ -	\$ 24,501,736
Construction in progress	11,884,413	16,117,304	-	28,001,717
Total Capital Assets Not Being Depreciated	<u>36,385,249</u>	<u>16,118,204</u>	<u>-</u>	<u>52,503,453</u>
Capital Assets Being Depreciated				
Buildings and improvements	483,412,215	860,829	-	484,273,044
Furniture and equipment	16,535,194	4,446,528	251,274	20,730,448
Total Capital Assets Being Depreciated	<u>499,947,409</u>	<u>5,307,357</u>	<u>251,274</u>	<u>505,003,492</u>
Total Capital Assets	<u>536,332,658</u>	<u>21,425,561</u>	<u>251,274</u>	<u>557,506,945</u>
Less Accumulated Depreciation				
Buildings and improvements	78,123,591	11,890,086	-	90,013,677
Furniture and equipment	10,469,171	1,349,386	251,274	11,567,283
Total Accumulated Depreciation	<u>88,592,762</u>	<u>13,239,472</u>	<u>251,274</u>	<u>101,580,960</u>
Governmental Activities Capital Assets, Net	<u>\$ 447,739,896</u>	<u>\$ 8,186,089</u>	<u>\$ -</u>	<u>\$ 455,925,985</u>

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

<b>Governmental Activities</b>	
Instruction	\$ 10,935,785
School site administration	357,467
Food services	622,255
All other administration	781,128
Plant services	542,837
Total Depreciation Expenses Governmental Activities	<u>\$ 13,239,472</u>

**HEMET UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

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**NOTE 5 - INTERFUND TRANSACTIONS**

**Interfund Receivables/Payables (Due To/Due From)**

Interfund receivable and payable balances at June 30, 2012, between major and non-major governmental funds, and internal service funds are as follows:

Due To	Due From			Total
	General Fund	Building Fund	Non-Major Governmental Funds	
General Fund	\$ -	\$ -	\$ 541,508	\$ 541,508
Non-Major Governmental Funds	115,575	140	-	115,715
Internal Service Fund	4,002,390	-	-	4,002,390
Total	<u>\$ 4,117,965</u>	<u>\$ 140</u>	<u>\$ 541,508</u>	<u>\$ 4,659,613</u>

A balance of \$178,201 is due to the General Fund from the Child Development (Non-Major) Governmental Fund for temporary loan.

A balance of \$342,226 is due to the General Fund from the Charter School (Non-Major) Governmental Fund for temporary loan.

The balance of \$4,002,390 is due to the Internal Service Fund from the General Fund for temporary loan.

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, 2012**

**Operating Transfers**

Interfund transfers for the year ended June 30, 2012, consisted of the following:

Transfer To	Transfer From		Total
	General Fund	Non-Major Governmental Funds	
General Fund	\$ -	\$ 328,989	\$ 328,989
Building Fund	-	2,758,383	2,758,383
Non-Major Governmental Funds	3,447,116	364,716	3,811,832
Internal Service Fund	215,554	-	215,554
Total	<u>\$ 3,662,670</u>	<u>\$ 3,452,088</u>	<u>\$ 7,114,758</u>

The General Fund transferred to the Charter School (Non-Major) Governmental Fund to cover costs associated with Special Education.	\$ 3,600
The General Fund transferred to the Self Insurance Fund for health and welfare waive non-elects.	215,554
The General Fund transferred to the Debt Service (Non-Major) Governmental Fund for Blended Component Units for debt service payments.	3,443,516
The Cafeteria Fund transferred to the Debt Service (Non-Major) Governmental Fund for Blended Component Units for debt service payments.	364,716
The Charter School Fund transferred to the General Fund for charter related special education expenses per memorandum of undersanding.	328,989
The County School Facilities (Non-Major) Governmental Fund transferred to the Building Fund for reimbursement of State funded building costs.	2,758,383
Total	<u>\$ 7,114,758</u>

**NOTE 6 - ACCOUNTS PAYABLE**

Accounts payable at June 30, 2012, consisted of the following:

	General Fund	Building Fund	Non-Major Governmental Funds	Internal Service Fund	Total
Vendor payables	\$ 2,125,288	\$ 393,469	\$ 370,968	\$ 64,615	\$ 2,954,340
State apportionment	1,823,250	-	-	-	1,823,250
Salaries and benefits	109,676	-	6,653	-	116,329
Construction	47,847	613,170	55,179	-	716,196
Claims liability	-	-	-	1,501,386	1,501,386
Total	<u>\$ 4,106,061</u>	<u>\$ 1,006,639</u>	<u>\$ 432,800</u>	<u>\$ 1,566,001</u>	<u>\$ 7,111,501</u>



**HEMET UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

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**NOTE 7 - DEFERRED REVENUE**

Deferred revenue at June 30, 2012, consisted of the following:

	General Fund
Federal financial assistance	\$ 133,791
State categorical aid	56,286
Other local	7,576
Total	<u>\$ 197,653</u>

**NOTE 8 - TAX AND REVENUE ANTICIPATION NOTES (TRANS)**

On April 14, 2011, the District issued \$14,935,000 in Tax and Revenue Anticipation Notes bearing interest at 2.50 percent. The notes were issued to supplement cash flows. Interest and principal were due and payable on January 31, 2012. By December 2011, the District placed 100 percent of principal and interest in an irrevocable trust for the sole purpose of satisfying the notes.

On July 1, 2011, the District issued \$22,980,000 in 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, 2012. By February 2012, the District placed 100 percent of principal and interest in an irrevocable trust for the sole purpose of satisfying the notes.

On February 9, 2012, the District issued \$6,965,000 in TRAN. The notes were issued to supplement cash flows. Interest and principal are due and payable on October 31, 2012. As of June 30, 2012, the District had a current loan of \$6,965,000 booked in relation to the TRAN.

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

Issue Date	Rate	Maturity Date	Outstanding July 1, 2011	Additions	Payments	Outstanding June 30, 2012
4/14/2011	2.50%	1/31/2012	\$ 14,935,000	\$ -	\$ 14,935,000	\$ -
7/1/2011	2.00%	3/1/2012	-	22,980,000	22,980,000	-
2/9/2012	2.00%	10/31/2012	-	6,965,000	-	6,965,000
			<u>\$ 14,935,000</u>	<u>\$ 29,945,000</u>	<u>\$ 37,915,000</u>	<u>\$ 6,965,000</u>

**HEMET UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 9 - LONG-TERM OBLIGATIONS**

**Summary**

A schedule of changes in long-term obligations for the year ended June 30, 2012, is shown below:

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012	Due in One Year
General Obligation Bonds	\$146,980,000	\$ -	\$ 3,660,000	\$143,320,000	\$ 3,795,000
Premium on issuance	1,887,917	-	81,688	1,806,229	-
Bond Anticipation Notes	25,000,000	-	-	25,000,000	-
Discount on issuance	(400,000)	-	(100,000)	(300,000)	-
Certificates of Participation	56,246,675	-	1,325,665	54,921,010	1,410,665
Discount on issuance	(123,792)	-	(5,245)	(118,547)	-
Lease Revenue Bonds	4,170,000	-	190,000	3,980,000	200,000
Discount on issuance	(8,564)	-	(522)	(8,042)	-
Capital Leases	3,722,464	945,509	588,268	4,079,705	820,848
Accumulated Vacation - net	798,966	30,363	-	829,329	-
Supplemental Early Retirement Program	6,396,692	3,362,510	2,085,463	7,673,739	2,840,108
Long Term IBNR	4,158,880	69,416	-	4,228,296	-
Net OPEB Obligation	10,672,138	4,646,211	1,876,727	13,441,622	-
Total	<u>\$259,501,376</u>	<u>\$ 9,054,009</u>	<u>\$ 9,702,044</u>	<u>\$258,853,341</u>	<u>\$ 9,066,621</u>

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

**HEMET UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**General Obligation Bonds Summary**

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds Outstanding June 30, 2012
				Outstanding July 1, 2011	Issued	Redeemed	
6/4/03	8/1/27	2.75% - 5.50%	\$ 15,000,000	\$ 12,160,000	\$ -	\$ 495,000	\$ 11,665,000
5/26/04	8/1/28	4.00% - 5.00%	10,000,000	8,555,000	-	310,000	8,245,000
5/18/05	8/1/29	3.50% - 5.00%	6,000,000	5,255,000	-	185,000	5,070,000
1/17/06	8/1/30	4.00% - 6.50%	6,000,000	5,480,000	-	175,000	5,305,000
3/1/07	8/1/37	4.00% - 5.75%	60,000,000	57,920,000	-	1,140,000	56,780,000
3/4/08	8/1/38	4.50% - 5.25%	40,000,000	38,870,000	-	615,000	38,255,000
7/28/10	8/1/26	4.00% - 4.50%	18,740,000	18,740,000	-	740,000	18,000,000
			<u>\$ 155,740,000</u>	<u>\$ 146,980,000</u>	<u>\$ -</u>	<u>\$ 3,660,000</u>	<u>\$ 143,320,000</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, 2012, the principal balance outstanding was \$11,665,000.

The bonds mature through 2028 as follows:

Fiscal Year	Principal	Interest	Total
2013	\$ 515,000	\$ 448,898	\$ 963,898
2014	535,000	432,221	967,221
2015	560,000	414,078	974,078
2016	585,000	394,682	979,682
2017	610,000	374,062	984,062
2018-2022	3,500,000	1,496,970	4,996,970
2023-2027	4,360,000	691,914	5,051,914
2028	1,000,000	21,250	1,021,250
Total	<u>\$ 11,665,000</u>	<u>\$ 4,274,075</u>	<u>\$ 15,939,075</u>

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

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### 2002 General Obligation Bonds, Series C

In May 2004, the District issued \$10,000,000 of 2002 General Obligation Bonds, Series C. The bonds mature on August 1, 2028, with interest yields ranging from 4.00 to 5.00 percent. At June 30, 2012, the principal balance outstanding was \$8,245,000.

The bonds mature through 2029 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 325,000	\$ 383,778	\$ 708,778
2014	340,000	368,853	708,853
2015	360,000	354,672	714,672
2016	375,000	339,324	714,324
2017	390,000	322,823	712,823
2018-2022	2,240,000	1,323,212	3,563,212
2023-2027	2,855,000	711,053	3,566,053
2028-2029	1,360,000	68,750	1,428,750
Total	<u>\$ 8,245,000</u>	<u>\$ 3,872,465</u>	<u>\$ 12,117,465</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, 2012, the principal balance outstanding was \$5,070,000 and unamortized premium and issuance costs were \$49,178 and \$49,178, respectively.

The bonds mature through 2030 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 195,000	\$ 206,255	\$ 401,255
2014	205,000	199,255	404,255
2015	205,000	191,568	396,568
2016	220,000	183,068	403,068
2017	230,000	174,067	404,067
2018-2022	1,290,000	722,559	2,012,559
2023-2027	1,600,000	424,365	2,024,365
2028-2030	1,125,000	75,141	1,200,141
Total	<u>\$ 5,070,000</u>	<u>\$ 2,176,278</u>	<u>\$ 7,246,278</u>

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

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### 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, 2012, the principal balance outstanding was \$5,305,000 and unamortized premium and issuance costs were \$70,577 and \$68,144, respectively.

The bonds mature through 2031 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	215,000	185,000	400,000
2018-2022	1,240,000	783,700	2,023,700
2023-2027	1,555,000	499,125	2,054,125
2028-2031	1,515,000	135,623	1,650,623
Total	<u>\$ 5,305,000</u>	<u>\$ 2,424,448</u>	<u>\$ 7,729,448</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, 2012, the principal balance outstanding was \$56,780,000 and unamortized premium and issuance costs were \$863,602 and \$530,212, respectively.

The bonds mature through 2038 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	1,465,000	2,247,946	3,712,946
2018-2022	8,370,000	10,229,195	18,599,195
2023-2027	10,280,000	8,061,472	18,341,472
2028-2032	12,645,000	5,619,470	18,264,470
2033-2037	15,465,000	2,578,631	18,043,631
2038	3,500,000	78,748	3,578,748
Total	<u>\$ 56,780,000</u>	<u>\$ 38,494,844</u>	<u>\$ 95,274,844</u>

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

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### 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, 2012, the principal balance outstanding was \$38,255,000 and unamortized premium and issuance costs were \$568,397 and \$568,397, respectively.

The bonds mature through 2039 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	805,000	1,775,944	2,580,944
2018-2022	4,730,000	8,201,593	12,931,593
2023-2027	6,185,000	6,820,018	13,005,018
2028-2032	8,080,000	5,053,069	13,133,069
2033-2037	10,555,000	2,696,066	13,251,066
2038-2039	5,085,000	259,172	5,344,172
Total	<u>\$ 38,255,000</u>	<u>\$ 32,275,787</u>	<u>\$ 70,530,787</u>

**HEMET UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**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, 2012, the principal balance outstanding was \$18,000,000 and unamortized premium and issuance costs were \$254,475 and \$432,465, respectively.

The bonds mature through 2027 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	1,090,000	569,352	1,659,352
2018-2022	6,120,000	2,179,557	8,299,557
2023-2027	7,435,000	831,982	8,266,982
Total	<u>\$ 18,000,000</u>	<u>\$ 6,222,361</u>	<u>\$ 24,222,361</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, 2012, was \$25,000,000 and unamortized discount and issuance costs were \$300,000 and \$290,944, respectively.

The bonds mature through 2016 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	<u>\$ 25,000,000</u>	<u>\$ 4,703,125</u>	<u>\$ 29,703,125</u>

**HEMET UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**Certificates of Participation Summary**

The outstanding certificates of participation are as follows:

Issue Date	Maturity Date	Original Issue	COP		COP Outstanding June 30, 2012
			Outstanding July 1, 2011	Issued	
10/14/04	10/01/32	\$ 23,425,000	\$ 19,700,000	\$ -	\$ 18,990,000
12/13/05	12/27/20	5,000,000	3,621,675	-	3,346,010
06/13/06	10/01/36	29,445,000	29,340,000	-	29,050,000
11/21/07	10/01/36	4,610,000	3,585,000	-	3,535,000
		<u>\$ 62,480,000</u>	<u>\$ 56,246,675</u>	<u>\$ -</u>	<u>\$ 54,921,010</u>

**2004 Certificates of Participation**

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

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, 2012, the principal balance outstanding was \$18,990,000 and unamortized discount and issuance costs were \$36,702 and \$385,778, respectively.

The certificates mature through 2033 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
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	835,000	696,721	1,531,721
2018-2022	4,755,000	2,903,942	7,658,942
2023-2027	5,865,000	1,745,518	7,610,518
2028-2032	4,390,000	393,969	4,783,969
2033	55,000	1,272	56,272
Total	<u>\$ 18,990,000</u>	<u>\$ 8,843,053</u>	<u>\$ 27,833,053</u>



# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

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### 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, 2012, US Bank held \$1,799,065 for payment of principal and unamortized issuance costs were \$70,137.

The certificates mature through 2021 as follows:

Year Ending June 30,	District Payment	Expected Earned Interest	Total
2013	\$ 275,665	\$ 43,271	\$ 318,936
2014	275,665	59,903	335,568
2015	275,665	68,827	344,492
2016	275,665	77,973	353,638
2017	275,665	87,379	363,044
2018-2021	1,102,660	382,607	1,485,267
Total	<u>\$ 2,480,985</u>	<u>\$ 719,960</u>	<u>\$ 3,200,945</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, 2012, the principal balance outstanding was \$29,050,000 and unamortized issuance costs were \$351,078.

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

The certificates mature through 2037 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2013	\$ 400,000	\$ 1,276,954	\$ 1,676,954
2014	435,000	1,261,079	1,696,079
2015	470,000	1,241,011	1,711,011
2016	520,000	1,221,546	1,741,546
2017	565,000	1,192,533	1,757,533
2018-2022	3,980,000	5,493,990	9,473,990
2023-2027	5,535,000	4,447,262	9,982,262
2028-2032	10,515,000	2,832,198	13,347,198
2033-2037	6,630,000	514,417	7,144,417
Total	<u>\$ 29,050,000</u>	<u>\$ 19,480,990</u>	<u>\$ 48,530,990</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, 2012, the principal balance outstanding was \$3,535,000 and unamortized discount and issuance costs were \$81,845 and \$167,094, respectively.

The certificates mature through 2037 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2013	\$ -	\$ 159,075	\$ 159,075
2014	-	159,075	159,075
2015	-	159,075	159,075
2016	-	159,075	159,075
2017	-	159,075	159,075
2018-2022	-	795,375	795,375
2023-2027	60,000	794,025	854,025
2028-2032	935,000	696,938	1,631,938
2033-2037	2,540,000	350,775	2,890,775
Total	<u>\$ 3,535,000</u>	<u>\$ 3,432,488</u>	<u>\$ 6,967,488</u>

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

### 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, 2012, the principal balance of \$3,980,000 remains outstanding and unamortized discount and issuance costs were \$8,042 and \$200,453, respectively.

The bonds mature through 2027 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
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	230,000	136,598	366,598
2018-2022	1,295,000	532,010	1,827,010
2023-2027	1,610,000	222,518	1,832,518
Total	<u>\$ 3,980,000</u>	<u>\$ 1,518,866</u>	<u>\$ 5,498,866</u>

### Capital Leases

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

	<u>Vehicles</u>	<u>Energy Management Equipment</u>	<u>Total</u>
Balance, July 1, 2011	\$ 1,437,647	\$ 2,847,415	\$ 4,285,062
Additions	1,026,982	-	1,026,982
Payments	266,582	464,494	731,076
Balance, June 30, 2012	<u>\$ 2,198,047</u>	<u>\$ 2,382,921</u>	<u>\$ 4,580,968</u>

## HEMET UNIFIED SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

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The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2013	\$ 983,571
2014	978,571
2015	878,103
2016	779,634
2017	767,633
2018-2019	193,456
Total	4,580,968
Less: Amount Representing Interest	501,263
Present Value of Minimum Lease Payments	<u>\$ 4,079,705</u>

#### Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2012, amounted to \$829,329.

#### 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 248 employees participating in this plan and the District's obligation to those retirees as of June 30, 2012, is \$7,673,739.

Future payments are as follows:

Year Ending June 30,	Amount
2013	\$ 2,840,108
2014	2,181,864
2015	1,433,790
2016	672,502
2017	672,502
Total	7,800,766
Less: Amount Representing Interest	127,027
Total	<u>\$ 7,673,739</u>

## **HEMET UNIFIED SCHOOL DISTRICT**

### **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2012**

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#### **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 \$4,228,296.

#### **Other Postemployment Benefit (OPEB) Obligation**

The District's annual required contribution for the year ended June 30, 2012, was \$4,219,325, and contributions made by the District during the year were \$1,425,813. Interest on the net OPEB obligation and adjustments to the annual required contribution were \$426,886 and \$(450,914), respectively, which resulted in an increase to the net OPEB obligation of \$2,769,484. As of June 30, 2012, the net OPEB obligation was \$13,441,622. 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 \$36,345,000 as of June 30, 2012, 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, 2012**

**NOTE 11 - FUND BALANCES**

Fund balances are composed of the following elements:

	General Fund	Building Fund	Non-Major Governmental Funds	Total
<b>Nonspendable</b>				
Revolving cash	\$ 25,000	\$ -	\$ -	\$ 25,000
Stores inventories	255,594	-	469,748	725,342
Prepaid expenditures	1,540	-	-	1,540
Total Nonspendable	<u>282,134</u>	<u>-</u>	<u>469,748</u>	<u>751,882</u>
<b>Restricted</b>				
Legally restricted programs	4,333,372	-	4,780,842	9,114,214
Capital projects	-	24,028,150	7,485,325	31,513,475
Debt services	-	-	13,205,481	13,205,481
Total Restricted	<u>4,333,372</u>	<u>24,028,150</u>	<u>25,471,648</u>	<u>53,833,170</u>
<b>Committed</b>				
Adult Education program	-	-	719,303	719,303
Deferred maintenance	-	-	1,628,882	1,628,882
Total Committed	<u>-</u>	<u>-</u>	<u>2,348,185</u>	<u>2,348,185</u>
<b>Assigned</b>				
Site discretionary carryover	835,671	-	-	835,671
STAR testing	40,101	-	-	40,101
Business summit	7,857	-	-	7,857
OPEB July and August payments	104,036	-	-	104,036
Equipment replacement	444,496	-	-	444,496
Medi-cal Administrative activities	137,625	-	-	137,625
Erate / IT projects	836,667	-	-	836,667
Site donations	328,354	-	-	328,354
ROTC program	15,217	-	-	15,217
Unclaimed property	6,092	-	-	6,092
MYP deficit spending	18,655,373	-	-	18,655,373
Site lottery carryover	634,709	-	-	634,709
HAAAT	-	-	247,730	247,730
WCA	-	-	761,211	761,211
Donations - HAAAT	-	-	2,746	2,746
Donations - WCA	-	-	34,921	34,921
HAAAT - unrestricted lottery	-	-	68,296	68,296
WCA - unrestricted lottery	-	-	51,220	51,220
Total Assigned	<u>22,046,198</u>	<u>-</u>	<u>1,166,124</u>	<u>23,212,322</u>
<b>Unassigned</b>				
Remaining unassigned	8,800,000	-	-	8,800,000
Total	<u>\$ 35,461,704</u>	<u>\$ 24,028,150</u>	<u>\$ 29,455,705</u>	<u>\$ 88,945,559</u>

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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### 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 206 retirees and beneficiaries currently receiving benefits and 2,164 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 2011-2012, the District contributed \$1,425,813 to the Plan, of which \$559,804 was used for current premiums and \$866,009 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	426,886
Adjustment to annual required contribution	<u>(450,914)</u>
Annual OPEB cost (expense)	4,195,297
Contributions made	<u>(1,425,813)</u>
Increase in net OPEB obligation	2,769,484
Net OPEB obligation, beginning of year	<u>10,672,138</u>
Net OPEB obligation, end of year	<u><u>\$ 13,441,622</u></u>

**HEMET UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**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
2010	\$ 3,793,363	\$ 1,089,271	28.72%	\$ 7,688,772
2011	4,202,014	1,218,648	29.00%	10,672,138
2012	4,195,297	1,425,813	33.99%	13,441,622

**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, 2012**

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**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, 2010 to June 30, 2012:

	Health Care	Workers' Compensation	Total
Liability Balance, July 1, 2010	\$ 1,474,000	\$ 3,298,571	\$ 4,772,571
Claims provision	14,685,113	4,994,843	19,679,956
Claims paid	(14,540,113)	(3,231,706)	(17,771,819)
Liability Balance, June 30, 2011	1,619,000	5,061,708	6,680,708
Claims provision	(6,393,780)	(863,193)	(7,256,973)
Claims paid	4,842,780	1,463,167	6,305,947
Liability Balance, June 30, 2012	<u>\$ 68,000</u>	<u>\$ 5,661,682</u>	<u>\$ 5,729,682</u>
Amount available to pay claims	<u>\$ 1,340,602</u>	<u>\$ 9,441,075</u>	<u>\$ -</u>

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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### 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 2011-2012 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, 2012, 2011, and 2010, were \$6,504,838, \$6,504,858, and \$7,080,839, 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, 2012

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### 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 2011-2012 was 10.923 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, 2012, 2011, and 2010, were \$3,396,752, \$3,250,360, and \$3,094,599, respectively, and equal 100 percent of the required contributions for each year.

### Social Security

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

### On Behalf Payments

The State of California makes contributions to CalSTRS and CalPERS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$4,236,820 (4.855 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. No contributions were made to CalPERS for the year ended June 30, 2012. 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, 2012.

### Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2012.

**HEMET UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

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**Construction Commitments**

As of June 30, 2012, the District had the following commitments with respect to the unfinished capital projects:

Capital Projects	Remaining Construction Commitments	Expected Date of Completion
Acacia Modernization	\$ 28,000,000	December 2014
Hemet HS Phase 2 - Building A, B C (New Theater and Science)	2,144,097	September 2012
Hemet HS Phase 3A - Existing Theater, Science (Interior Work)	11,417	September 2012
Hemet HS Phase 3B - Parking Lot (Exterior Work)	3,000,000	August 2013
Hemet HS CATV Project FY 2012	93,027	September 2012
Idyllwild - Pedestrian Ramp at Athletic Field	245,000	June 2013
	\$ 33,493,541	

**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, 2012, the District made payments of \$763,077 to SoCal ReLiEF, for services received.

**NOTE 17 - FISCAL ISSUES RELATING TO BUDGET REDUCTIONS**

The State of California continues to suffer the effects of a recessionary economy. California school districts are reliant on the State of California to appropriate the funding necessary to continue the level of educational services expected by the State constituency. With the implementation of education trailer bill Senate Bill 70 (Chapter 7, Statutes of 2011), 39 percent of current year funding has 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.

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***REQUIRED SUPPLEMENTARY INFORMATION***

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# HEMET UNIFIED SCHOOL DISTRICT

## GENERAL FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual (GAAP Basis)	Variances -
	Original	Final		Positive
				(Negative)
			Final	
<b>REVENUES</b>				<b>Final</b>
Revenue limit sources	\$ 105,037,942	\$ 110,150,549	\$ 110,214,785	\$ 64,236
Federal sources	20,978,177	21,113,696	20,583,365	(530,331)
Other State sources	21,084,171	25,642,035	26,017,337	375,302
Other local sources	21,421,403	24,777,445	25,463,422	685,977
<b>Total Revenues</b> <sup>1</sup>	<u>168,521,693</u>	<u>181,683,725</u>	<u>182,278,909</u>	<u>595,184</u>
<b>EXPENDITURES</b>				
Current				
Certificated salaries	75,154,799	77,969,636	77,917,138	52,498
Classified salaries	29,704,750	30,146,812	30,528,846	(382,034)
Employee benefits	31,529,878	35,717,527	38,237,799	(2,520,272)
Books and supplies	9,744,888	8,075,925	8,083,643	(7,718)
Services and operating expenditures	19,274,988	20,995,572	18,341,468	2,654,104
Capital outlay	125,398	2,693,652	2,775,090	(81,438)
Other outgo	(514,570)	(519,382)	(1,163,614)	644,232
Debt service				
Principal	1,767,888	2,041,122	992,854	1,048,268
Interest	2,611,537	2,559,167	852,211	1,706,956
<b>Total Expenditures</b> <sup>1</sup>	<u>169,399,556</u>	<u>179,680,031</u>	<u>176,565,435</u>	<u>3,114,596</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>(877,863)</u>	<u>2,003,694</u>	<u>5,713,474</u>	<u>3,709,780</u>
<b>Other Financing Sources (Uses)</b>				
Transfers in	303,030	326,728	328,989	2,261
Other sources	-	944,509	945,509	1,000
Transfers out	1,329,906	(140,145)	(3,662,670)	(3,522,525)
<b>Net Financing Sources (Uses)</b>	<u>1,632,936</u>	<u>1,131,092</u>	<u>(2,388,172)</u>	<u>(3,519,264)</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>755,073</u>	<u>3,134,786</u>	<u>3,325,302</u>	<u>190,516</u>
<b>Fund Balance - Beginning</b>	<u>32,136,402</u>	<u>32,136,402</u>	<u>32,136,402</u>	<u>-</u>
<b>Fund Balance - Ending</b>	<u>\$ 32,891,475</u>	<u>\$ 35,271,188</u>	<u>\$ 35,461,704</u>	<u>\$ 190,516</u>

<sup>1</sup> On behalf payments of \$4,236,820 are included in the actual revenues and expenditures, but have not been included in the budgeted amounts.

**HEMET UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING  
PROGRESS  
FOR THE YEAR ENDED JUNE 30, 2012**

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Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial 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%

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***SUPPLEMENTARY INFORMATION***

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**HEMET UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2012**

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
Indian Education - Grants to Local Educational Agencies	84.060	10011	\$ 12,781
Carl D. Perkins Vocational and Technical Education Act of 1998 Secondary Education	84.048	14894	134,555
Passed through Riverside County Special Education Local Plan Area:			
Individuals with Disabilities Act (IDEA)			
Special Education (IDEA) Cluster:			
Basic Local Assistance Entitlement, Part B, Section 611	84.027	13379	4,261,750
Local Assistance, Part B, Section 611, Private School ISPs	84.027	10115	10,530
Local Assistance Private School ISPs ARRA, Part B, Section 611	84.391	10123	46,435
Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.173	13430	59,801
Preschool Local Entitlement, Part B, Section 611 (Age 3-4-5)	84.027A	13682	134,163
IDEA Mental Health Allocation Plan, Part B, Section 611	84.027	14468	46,505
Preschool Staff Development, Part B, Section 619	84.173A	13431	557
Total Special Education (IDEA) Cluster			<u>4,559,741</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	6,447,642
Title I, Part A, ARRA Basic Grants Low Income and Neglected	84.389	15005	1,040
Total Title I, Part A Cluster			<u>6,448,682</u>
ARRA, State Fiscal Stabilization Fund (SFSF)	84.394	25008	464,716
Title II, Part A Cluster:			
Title II, Part A, Improving Teacher Quality Local Grants	84.367	14341	751,093
Title II, Part A, Administrator Training	84.367	14344	4,280
Total Title II, Part A Cluster			<u>755,373</u>
Title II, Part D, Enhancing Education Through Technology (EETT), Formula Grants	84.318	14334	9,520

See accompanying note to supplementary information.

**HEMET UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)  
FOR THE YEAR ENDED JUNE 30, 2012**

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
<b>U.S. DEPARTMENT OF EDUCATION (CONTINUED)</b>			
Title III Cluster:			
Title III, Immigrant Education Program	84.365	14346	\$ 274,633
Title III, Limited English Proficient (LEP) Student Program	84.365	15146	51,226
Title III Cluster			<u>325,859</u>
Title IV, Part B, 21st Century Community Learning Centers Program	84.287	14349	115,028
Title V, Part A, Innovative Education Strategies	84.298A	14354	1,627
Title V, Part B, Public Charter Schools Grant Program	84.282A	14941	200,000
Elementary and Secondary School Counseling Discretionary Grants	84.215E	[1]	179,345
Education Jobs Fund (SB 847)	84.410	25152	4,235,986
ARRA, State Fiscal Stabilization Fund (SFSF) - Investing in Innovation, Developmental Grant	84.396C	10130	239,647
Total U.S. Department of Education			<u>17,682,860</u>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Forest Reserve	10.665	10044	55,268
Passed through California Department of Education (CDE):			
Child Nutrition Cluster:			
Especially Needy Breakfast	10.553	13526	2,163,705
National School Lunch Program	10.555	13524	6,519,195
Meal Supplement	10.555	13396	229,773
Food Distribution	10.555	13524	618,155
Total Child Nutrition Cluster			<u>9,530,828</u>
CCFP Claims - Centers and Family Day Care	10.558	13393	185,522
Total U.S. Department of Agriculture			<u>9,771,618</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, 2012**

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
Passed through California Department of Health Services:			
Medicaid Cluster:			
Medi-Cal Billing Option	93.778	10013	\$ 1,813,428
Medical Administrative Activities Program	93.778	10060	500,559
Total Medicaid Cluster			<u>2,313,987</u>
Passed through Riverside County Office of Education (RCOE):			
Head Start	93.600	10016	<u>1,051,549</u>
Total U.S. Department of Health and Human Services			<u>3,365,536</u>
Total Federal Programs			<u><u>\$ 30,820,014</u></u>

See accompanying note to supplementary information.

# HEMET UNIFIED SCHOOL DISTRICT

## LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2012

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### ORGANIZATION

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

### GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
William Sanborn	President	2014
Marilyn Forst	Vice President	2012
Paul Bakkom	Member	2014
Lisa DeForest	Member	2012
Charlotte Jones	Member	2012
Ross Valenzuela	Member	2014
Joe Wojcik	Member	2014

### ADMINISTRATION

Dr. Sally Cawthon	Interim 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, 2012**

	Final Report	
	Second Period Report	Annual Report
<b>ELEMENTARY</b>		
Kindergarten	1,488	1,488
First through third	4,471	4,463
Fourth through sixth	4,352	4,349
Seventh and eighth	2,850	2,839
Home and hospital	2	2
Special education	630	639
Total Elementary	<u>13,793</u>	<u>13,780</u>
<b>SECONDARY</b>		
Regular classes	5,694	5,640
Continuation education	438	430
Home and hospital	8	10
Special education	410	404
Total Secondary	<u>6,550</u>	<u>6,484</u>
Total K-12	<u>20,343</u>	<u>20,264</u>
<b>HAAAT CHARTER SCHOOL</b>		
Ninth through twelfth	<u>147</u>	<u>145</u>
<b>HAAAT CHARTER SCHOOL - Classroom Based Instruction</b>		
Ninth through twelfth	<u>147</u>	<u>145</u>
<b>WESTERN CENTER ACADEMY</b>		
Fourth through sixth	117	117
Seventh and eighth	170	170
Total	<u>287</u>	<u>287</u>
<b>WESTERN CENTER ACADEMY - Classroom Based Instruction</b>		
Fourth through sixth	117	117
Seventh and eighth	170	170
Total	<u>287</u>	<u>287</u>

See accompanying note to supplementary information.

**HEMET UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF INSTRUCTIONAL TIME  
FOR THE YEAR ENDED JUNE 30, 2012**

Grade Level	1982-83	Reduced 1982-83	1986-87	Reduced 1986-87	2011-12	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	33,600	34,190	175	N/A	Complied
Grades 1 - 3	43,095	41,898	50,400	47,040				
Grade 1					50,190	175	N/A	Complied
Grade 2					50,190	175	N/A	Complied
Grade 3					50,190	175	N/A	Complied
Grades 4 - 6	51,075	49,656	54,000	50,400				
Grade 4					52,610	175	N/A	Complied
Grade 5					52,610	175	N/A	Complied
Grade 6					56,330	175	N/A	Complied
Grades 7 - 8	51,075	49,656	54,000	50,400				
Grade 7					56,330	175	N/A	Complied
Grade 8					56,330	175	N/A	Complied
Grades 9 - 12	56,022	54,466	64,800	60,480				
Grade 9					63,006	175	N/A	Complied
Grade 10					63,006	175	N/A	Complied
Grade 11					63,006	175	N/A	Complied
Grade 12					63,006	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, 2012**

**Hemet Academy for Applied Academics and Technology (HAAAT)**

Grade Level	1982-83	Reduced 1982-83	1986-87	Reduced 1986-87	2011-12	Number of Days		Status
	Actual Minutes	Actual Minutes	Minutes Requirement	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Grades 9 - 12	*	*	64,800	60,480				
Grade 9					63,080	175	N/A	Complied
Grade 10					63,080	175	N/A	Complied
Grade 11					63,080	175	N/A	Complied
Grade 12					63,080	175	N/A	Complied

**Western Center Academy**

Grade Level	1982-83	Reduced 1982-83	1986-87	Reduced 1986-87	2011-12	Number of Days		Status
	Actual Minutes	Actual Minutes	Minutes Requirement	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Grade 6	*	*	54,000	49,200	56,500	175	N/A	Complied
Grades 7 - 8	*	*	54,000	49,200				
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, 2012**

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There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2012.

See accompanying note to supplementary information.



**HEMET UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2012**

	(Budget) 2013 <sup>1</sup>	2012	2011	2010
<b>GENERAL FUND</b>				
Revenues	\$ 162,346,696	\$ 182,278,909	\$ 178,595,659	\$ 183,806,813
Other sources and transfers in	372,592	1,274,498	1,678,103	186,310
Total Revenues and Other Sources	162,719,288	183,553,407	180,273,762	183,993,123
Expenditures	175,128,965	176,565,435	169,170,026	179,210,503
Other uses and transfers out	-	3,662,670	5,227,239	4,478,043
Total Expenditures and Other Uses	175,128,965	180,228,105	174,397,265	183,688,546
INCREASE (DECREASE) IN FUND BALANCE	\$ (12,409,677)	\$ 3,325,302	\$ 5,876,497	\$ 304,577
ENDING FUND BALANCE	\$ 23,052,027	\$ 35,461,704	\$ 32,136,402	\$ 26,259,905
AVAILABLE RESERVES <sup>2</sup>	\$ 8,760,000	\$ 8,800,000	\$ 8,550,154	\$ 5,608,191
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO <sup>3</sup>	5.00%	5.00%	5.00%	3.12%
LONG-TERM OBLIGATIONS	N/A	\$ 258,853,341	\$ 259,501,376	\$ 237,012,224
K-12 AVERAGE DAILY ATTENDANCE AT P-2 <sup>4</sup>	20,100	20,343	20,639	20,866

The General Fund balance has increased by \$9,201,799 over the past two years. The fiscal year 2012-2013 budget projects a decrease of \$12,409,677 (34.99 percent). For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in each of the past three years, but anticipates incurring an operating deficit during the 2012-2013 fiscal year. Total long-term obligations have increased by \$21,841,117 over the past two years.

Average daily attendance has decreased by 523 over the past two years. An additional decline of 243 ADA is anticipated during fiscal year 2012-2013.

<sup>1</sup> Budget 2013 is included for analytical purposes only and has not been subjected to audit.

<sup>2</sup> Available reserves consist of all unassigned fund balances contained within the General Fund.

<sup>3</sup> On behalf payments of \$4,236,820, \$3,428,010, and \$3,723,689, have been excluded from the calculation of available reserves for the fiscal years ending June 30, 2012, 2011, and 2010.

<sup>4</sup> Excludes Charter School ADA.

See accompanying note to supplementary information.

**HEMET UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF CHARTER SCHOOLS  
FOR THE YEAR ENDED JUNE 30, 2012**

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<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, 2012**

	<b>Charter Schools Fund</b>	<b>Adult Education Fund</b>	<b>Child Development Fund</b>	<b>Cafeteria Fund</b>	<b>Deferred Maintenance Fund</b>
<b>ASSETS</b>					
Deposits and investments	\$ 13,845	\$ 723,429	\$ 14,949	\$ 3,677,937	\$ 1,746,565
Receivables	1,475,692	693	170,475	1,265,174	1,799
Due from other funds	60,966	-	22,700	31,909	-
Stores inventories	-	-	-	469,748	-
<b>Total Assets</b>	<b>\$ 1,550,503</b>	<b>\$ 724,122</b>	<b>\$ 208,124</b>	<b>\$ 5,444,768</b>	<b>\$ 1,748,364</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 17,316	\$ 4,772	\$ 1,591	\$ 226,313	\$ 119,482
Due to other funds	342,226	47	178,201	21,034	-
<b>Total Liabilities</b>	<b>359,542</b>	<b>4,819</b>	<b>179,792</b>	<b>247,347</b>	<b>119,482</b>
<b>Fund Balances:</b>					
Nonspendable	-	-	-	469,748	-
Restricted	24,837	-	28,332	4,727,673	-
Committed	-	719,303	-	-	1,628,882
Assigned	1,166,124	-	-	-	-
<b>Total Fund Balances</b>	<b>1,190,961</b>	<b>719,303</b>	<b>28,332</b>	<b>5,197,421</b>	<b>1,628,882</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 1,550,503</b>	<b>\$ 724,122</b>	<b>\$ 208,124</b>	<b>\$ 5,444,768</b>	<b>\$ 1,748,364</b>

See accompanying note to supplementary information.

<b>Capital Facilities Fund</b>	<b>County School Facilities Fund</b>	<b>Special Reserve Fund for Capital Outlay Projects</b>	<b>Capital Projects for Blended Component Units Fund</b>	<b>Bond Interest and Redemption Fund</b>	<b>Debt Service for Blended Component Units Fund</b>	<b>Non-Major Governmental Funds</b>
\$ 3,042,760	\$ 3,832	\$ 33,118	\$ 4,442,593	\$ 9,006,039	\$ 4,199,442	\$ 26,904,509
26,171	4	33	-	-	-	2,940,041
140	-	-	-	-	-	115,715
-	-	-	-	-	-	469,748
<u>\$ 3,069,071</u>	<u>\$ 3,836</u>	<u>\$ 33,151</u>	<u>\$ 4,442,593</u>	<u>\$ 9,006,039</u>	<u>\$ 4,199,442</u>	<u>\$ 30,430,013</u>
\$ 63,326	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 432,800
-	-	-	-	-	-	541,508
<u>63,326</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>974,308</u>
-	-	-	-	-	-	469,748
3,005,745	3,836	33,151	4,442,593	9,006,039	4,199,442	25,471,648
-	-	-	-	-	-	2,348,185
-	-	-	-	-	-	1,166,124
<u>3,005,745</u>	<u>3,836</u>	<u>33,151</u>	<u>4,442,593</u>	<u>9,006,039</u>	<u>4,199,442</u>	<u>29,455,705</u>
<u>\$ 3,069,071</u>	<u>\$ 3,836</u>	<u>\$ 33,151</u>	<u>\$ 4,442,593</u>	<u>\$ 9,006,039</u>	<u>\$ 4,199,442</u>	<u>\$ 30,430,013</u>

**HEMET UNIFIED SCHOOL DISTRICT**

**NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2012**

	<b>Charter Schools Fund</b>	<b>Adult Education Fund</b>	<b>Child Development Fund</b>	<b>Cafeteria Fund</b>	<b>Deferred Maintenance Fund</b>
<b>REVENUES</b>					
Revenue limit sources	\$ 2,701,403	\$ -	\$ -	\$ -	\$ -
Federal sources	291,260	-	185,522	9,530,828	-
Other State sources	695,328	505,406	1,298,081	788,920	724,500
Other local sources	323,524	194,751	568	1,111,895	7,929
<b>Total Revenues</b>	<b>4,011,515</b>	<b>700,157</b>	<b>1,484,171</b>	<b>11,431,643</b>	<b>732,429</b>
<b>EXPENDITURES</b>					
Current					
Instruction	2,151,306	245,192	1,013,637	-	-
Instruction-related activities:					
Supervision of instruction	3,982	-	136,694	-	-
Instructional library, media and technology	21,468	-	-	-	-
School site administration	466,461	270,340	56,424	-	-
Pupil services:					
Food services	-	-	210,711	9,126,537	-
All other pupil services	12,964	6,123	609	-	-
Administration:					
Data processing	8,160	-	-	-	-
All other administration	64,839	17,735	60,241	405,009	-
Plant services	443,678	2,669	5,287	238,929	826,904
Facility acquisition and construction	-	-	-	977,817	30,953
Ancillary services	420	-	-	-	-
Debt service					
Principal	-	-	-	-	-
Interest and other	-	-	-	-	-
<b>Total Expenditures</b>	<b>3,173,278</b>	<b>542,059</b>	<b>1,483,603</b>	<b>10,748,292</b>	<b>857,857</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>838,237</b>	<b>158,098</b>	<b>568</b>	<b>683,351</b>	<b>(125,428)</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	3,600	-	-	-	-
Transfers out	(328,989)	-	-	(364,716)	-
<b>Net Financing Sources (Uses)</b>	<b>(325,389)</b>	<b>-</b>	<b>-</b>	<b>(364,716)</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>512,848</b>	<b>158,098</b>	<b>568</b>	<b>318,635</b>	<b>(125,428)</b>
<b>Fund Balances - Beginning</b>	<b>678,113</b>	<b>561,205</b>	<b>27,764</b>	<b>4,878,786</b>	<b>1,754,310</b>
<b>Fund Balances - Ending</b>	<b>\$ 1,190,961</b>	<b>\$ 719,303</b>	<b>\$ 28,332</b>	<b>\$ 5,197,421</b>	<b>\$ 1,628,882</b>

See accompanying note to supplementary information.

<b>Capital Facilities Fund</b>	<b>County School Facilities Fund</b>	<b>Special Reserve Fund for Capital Outlay Projects</b>	<b>Capital Projects for Blended Component Units Fund</b>	<b>Bond Interest and Redemption Fund</b>	<b>Debt Service For Blended Component Units Fund</b>	<b>Non-Major Governmental Funds</b>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,701,403
-	-	-	-	-	-	10,007,610
-	-	-	-	202,684	-	4,214,919
130,094	3,836	156	969,622	10,300,390	57,871	13,100,636
130,094	3,836	156	969,622	10,503,074	57,871	30,024,568
-	-	-	-	-	-	3,410,135
-	-	-	-	-	-	140,676
-	-	-	-	-	-	21,468
-	-	-	-	-	-	793,225
-	-	-	-	-	-	9,337,248
-	-	-	-	-	-	19,696
-	-	-	-	-	-	8,160
331,304	-	-	-	-	-	879,128
12,344	-	-	-	-	-	1,529,811
341,184	-	-	-	-	-	1,349,954
-	-	-	-	-	-	420
-	-	-	-	3,660,000	1,240,000	4,900,000
-	-	-	-	6,542,834	2,637,708	9,180,542
684,832	-	-	-	10,202,834	3,877,708	31,570,463
(554,738)	3,836	156	969,622	300,240	(3,819,837)	(1,545,895)
-	-	-	-	-	3,808,232	3,811,832
-	(2,758,383)	-	-	-	-	(3,452,088)
-	(2,758,383)	-	-	-	3,808,232	359,744
(554,738)	(2,754,547)	156	969,622	300,240	(11,605)	(1,186,151)
3,560,483	2,758,383	32,995	3,472,971	8,705,799	4,211,047	30,641,856
\$ 3,005,745	\$ 3,836	\$ 33,151	\$ 4,442,593	\$ 9,006,039	\$ 4,199,442	\$ 29,455,705

**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, 2012**

(Amounts in thousands)

	Actual Results for the Years					
	2011-2012		2010-2011		2009-2010	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Amount	Percent of Revenue
<b>REVENUES</b>						
Federal revenue	\$ 20,584	11.3	\$ 18,410	10.3	\$ 22,359	12.2
State and local revenue included in revenue limit	110,215	60.4	110,995	62.1	109,222	59.4
Other State revenue	26,017	14.3	26,539	14.9	27,732	15.1
Other local revenue	17,154	9.4	13,759	7.7	15,674	8.5
Tuition and transfers in	8,309	4.6	8,894	5.0	8,820	4.8
<b>Total Revenues</b>	<b>182,279</b>	<b>100.0</b>	<b>178,597</b>	<b>100.0</b>	<b>183,807</b>	<b>100.0</b>
<b>EXPENDITURES</b>						
Salaries and Benefits						
Certificated salaries	77,917	42.7	78,171	43.8	85,727	46.6
Classified salaries	30,529	16.7	29,348	16.4	30,730	16.7
Employee benefits	38,238	21.0	34,091	19.1	36,833	20.0
<b>Total Salaries and Benefits</b>	<b>146,684</b>	<b>80.5</b>	<b>141,610</b>	<b>79.3</b>	<b>153,290</b>	<b>83.3</b>
Books and supplies	8,084	4.4	6,382	3.6	6,371	3.5
Contracts and operating expenses	18,341	10.1	18,904	10.6	17,925	9.8
Capital outlay	2,775	1.5	1,429	0.8	685	0.4
Other outgo	681	0.4	846	0.5	939	0.5
<b>Total Expenditures</b>	<b>176,565</b>	<b>96.9</b>	<b>169,171</b>	<b>94.8</b>	<b>179,210</b>	<b>97.5</b>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<b>5,714</b>	<b>3.0</b>	<b>9,426</b>	<b>5.2</b>	<b>4,597</b>	<b>2.5</b>
<b>OTHER FINANCING SOURCES (USES)</b>						
Incoming transfers/other sources	1,275	0.7	1,581	0.9	186	0.1
Outgoing transfers	(3,663)	(2.0)	(5,252)	(2.9)	(4,478)	(2.4)
<b>Total Financing Sources (Uses)</b>	<b>(2,388)</b>	<b>(1.3)</b>	<b>(3,671)</b>	<b>(2.0)</b>	<b>(4,292)</b>	<b>(2.3)</b>
<b>INCREASE IN FUND BALANCE</b>	<b>3,326</b>	<b>1.7</b>	<b>5,755</b>	<b>3.2</b>	<b>305</b>	<b>0.2</b>
<b>FUND BALANCE, BEGINNING RESTATEMENT</b>	<b>32,136</b>		<b>26,260</b>		<b>25,955</b>	
<b>FUND BALANCE, ENDING</b>	<b>\$ 35,462</b>		<b>\$ 32,136</b>		<b>\$ 26,260</b>	
<b>ENDING FUND BALANCE TO TOTAL REVENUES</b>		<b>19.5</b>		<b>14.3</b>		<b>10.9</b>

See accompanying note to supplementary information.

# HEMET UNIFIED SCHOOL DISTRICT

## NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2012

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### 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 the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts consist primarily of ARRA State Fiscal Stabilization Funds and Medi-Cal Billing Option Funds that in the previous period were recorded as revenues but were unspent. These unspent balances have been expended in the current period. In addition, Medi-Cal Administrative Activities Program funds have been recorded in the current period as revenues that have not been expended as of June 30, 2012. 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:		\$ 30,590,975
ARRA, State Fiscal Stabilization Funds (SFSF)	84.394	464,716
Medi-Cal Billing Option	93.778	883,042
Medi-Cal Administrative Activities Program	93.778	<u>(1,118,719)</u>
Total Schedule of Expenditures of Federal Awards		<u>\$ 30,820,014</u>

#### Local Education Agency Organization Structure

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

#### Schedule of Average Daily Attendance (ADA)

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



# **HEMET UNIFIED SCHOOL DISTRICT**

## **NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2012**

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### **Schedule of Instructional Time**

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

Districts must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirements, whichever is greater, as required by *Education Code* Section 46201.

### **Reconciliation of Annual Financial and Budget Report With Audited Financial Statements**

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Annual Financial and Budget Report Unaudited Actuals to the audited financial statements.

### **Schedule of Financial Trends and Analysis**

This schedule discloses the District's financial trends by displaying past years' data along with current year budget information. These financial trend disclosures are used to evaluate the District's ability to continue as a going concern for a reasonable period of time.

### **Schedule of Charter Schools**

This schedule lists all charter schools chartered by the District, and displays information for each charter school on whether or not the charter school is included in the District audit.

### **Non-Major Governmental Funds - Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance**

The Non-Major Governmental Funds Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund 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.

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*INDEPENDENT AUDITORS' REPORTS*

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**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, 2012, which collectively comprise Hemet Unified School District's basic financial statements and have issued our report thereon dated November 19, 2012. 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.

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.

**Internal Control Over Financial Reporting**

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 previously.

## 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 19, 2012.

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 19, 2012



**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, 2012. 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, 2012.

## 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 19, 2012



**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*, applicable to Hemet Unified School District's government programs as noted below for the year ended June 30, 2012. 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 2011-2012* 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, 2012, except as described in the Schedule of State Awards Findings and Questioned Costs section of the accompanying Schedule of Findings and Questioned Costs.

In connection with the audit referred to above, we selected and tested transactions and records to determine the Hemet Unified School District's compliance with the State laws and regulations applicable to the following items:

	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance reporting	6	Yes
Teacher Certification and Misassignments	3	Yes
Kindergarten continuance	3	Yes
Independent study	23	Yes
Continuation education	10	Yes, See Below

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Instructional Time:		
School districts	6	Yes
County offices of education	3	Not Applicable
Instructional Materials:		
General requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	Not Applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Public Hearing Requirement - Receipt of Funds	1	Yes
Juvenile Court Schools	8	Not Applicable
Exclusion of Pupils - Pertussis Immunization	2	Yes
Class Size Reduction Program (including in charter schools):		
General requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	Not Applicable
Districts 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	5	Yes
Before school	6	Not Applicable
Charter Schools:		
Contemporaneous records of attendance	3	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	4	Yes

We did not perform steps related to work experience for continuation education because the steps were not applicable.

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 19, 2012



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***SCHEDULE OF FINDINGS AND QUESTIONED COSTS***

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**HEMET UNIFIED SCHOOL DISTRICT**

**SUMMARY OF AUDITORS' RESULTS  
FOR THE YEAR ENDED JUNE 30, 2012**

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**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>
<u>84.394 (ARRA)</u>	<u>ARRA - State Fiscal Stabilization Fund (SFSF)</u>
<u>84.396C (ARRA)</u>	<u>ARRA - State Fiscal Stabilization Fund (SFSF) - Investing in Innovation, Development Grant</u>
<u>84.410</u>	<u>Education Jobs Fund (SB 847)</u>
<u>10.553, 10.555</u>	<u>Child Nutrition Cluster</u>
<u>93.778</u>	<u>Medicaid Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 924,600</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

**STATE AWARDS**

Type of auditors' report issued on compliance for programs:	<u>Unqualified</u>
Unqualified for all programs except for the following program which was qualified:	

<u>Name of Program</u>
<u>After School Education and Safety</u>

**HEMET UNIFIED SCHOOL DISTRICT**

**FINANCIAL STATEMENT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2012**

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None reported.

**HEMET UNIFIED SCHOOL DISTRICT**

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2012**

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None reported.

# HEMET UNIFIED SCHOOL DISTRICT

## STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2012

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The following findings represent instances of noncompliance and/or questioned costs relating to State program laws and regulations. The findings have been coded as follows:

	<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
	40000	State Compliance
<b>2012-1</b>	<b>40000 - After School Education and Safety Program – Attendance and Reporting – Early Release</b>	

### **Criteria or Specific Requirements**

Pupils reported on the report of students served are required to attend a full day of the after school program; or if any pupil attended less than the full day, the attendance must be consistent with the established early release policy. Adequate documentation that supports attendance participation must be maintained by each site that documents that students are attending the program as consistent with the early release policy.

### **Condition**

There appears to be some instances in which there are no verifiable records to support students leaving early are doing so in accordance with the program's early release policy adopted by the program. The program has a procedure to indicate the reason for early release on the sign out roster. Parents are required to indicate the reason for early release when they sign out their child early from the program. However, during review of sign out sheets, it was noted that there were instances in which the rosters were not completed to reflect the student's reason for early dismissal.

### **Questioned Costs**

There were no current year questioned costs associated with the condition found.

### **Context**

In performing procedures related to the after school program component it was noted that there were instances when a student was signed out early from the program, but documentation showing that the student was signed out in accordance with the early release policy of the program was not evident. Of the three schools tested for the month of March 2012, we noted a total of four days signed out early among two students at Ramona Elementary with no early release policy on file and a total of 41 days signed out early among 19 students at Winchester Elementary, also with no early release policy on file.

## **HEMET UNIFIED SCHOOL DISTRICT**

### **STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2012**

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#### **Effect**

As a result of our testing, the District does not appear to be in compliance with requirements that documents must be maintained that students are attending the program as consistent with the early release policy. There is not sufficient documentation to support whether or not students participated in the full day of the program.

#### **Cause**

It appears that the condition identified has materialized as a result of the site not following up to ensure documentation showing that the student was signed out in accordance with the early release policy of the program.

#### **Recommendation**

The site should update the sign in-out sheets and procedures over monitoring attendance to ensure that each sheet is accurately and completely filled out. This would provide a clear audit trail of the attendance being recorded for specific calendar days along with clearer documentation when attempting to verify that students arriving late or leaving early have the proper documentation for a given date.

#### **Corrective Action Plan**

The District's After School Program will implement procedures to ensure that students signed out in accordance with the early release policy guidelines are clearly documented to ensure the accuracy of attendance reports submitted by the sites. The student sign-out procedures will be reviewed with program staff responsible for maintaining the documentation. The Director or Assistant Principal of the After School Program will monitor compliance at each site.

#### **2012-2 40000 - After School Education and Safety Program – Attendance and Reporting - Documentation**

##### **Criteria or Specific Requirements**

Compliance requirements mandate that schools maintain adequate source documents supporting the number of students served by the program as reported semi-annually to the California Department of Education (CDE).

##### **Condition**

There is inadequate documentation indicating actual student participation in the After School Program. Source documents used for recording attendance do not consistently agree with the records included in the total number of students served.

## HEMET UNIFIED SCHOOL DISTRICT

### STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2012

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#### **Questioned Costs**

There were no questioned costs associated with the condition found.

#### **Context**

In performing procedures over the after school education and safety program we noted that sign in-out sheets are not being accurately filled out. Specifically, for the month of March 2012, there were sign in-out sheets that had times and signatures, but the dates on the sheet did not correspond with the dates on the attendance summary used to prepare the information sent to the State. This has created instances where attendance claimed or not claimed for a given student for the month appears to differ from what the sign in-out sheets support.

#### **Effect**

Conditions identified make the program's ability to report an accurate number of students served to the State as required as identified in the State Audit Guide in the required semi-annual attendance reports difficult. Per *Education Code* Section 8483.7, the CDE may terminate a grant that does not comply with fiscal reporting, attendance reporting, or outcomes reporting requirements. CDE may also withhold the grant allocation for a program if the prior year reporting is outstanding.

#### **Cause**

It appears that the condition identified has materialized as a result of the absence of properly maintaining the standardized attendance recording and reporting procedures by those responsible for administering the program.

#### **Recommendation**

The site should update the sign in-out sheets and procedures over monitoring attendance to ensure that each sheet is accurately and completely filled out. This would provide a clear audit trail of the attendance being recorded for specific calendar days along with clearer documentation when attempting to verify that students arriving late or leaving early have the proper documentation for a given date.

#### **Corrective Action Plan**

The District's After School Program will implement protocol that includes a quarterly review and analysis of attendance reports submitted by the sites. The review will be performed by the Director or Assistant Principal of After School Programs to ensure the number of students served is reflected accurately for State reporting.

**HEMET UNIFIED SCHOOL DISTRICT**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2012**

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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, 2012, 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 19, 2012, on the financial statements of Hemet Unified School District.

## 2011 OBSERVATIONS AND RECOMMENDATIONS

### *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".

##### **Current Status**

Implemented.

Governing Board  
Hemet Unified School District

***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".

**Current Status**

Implemented.

***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".

**Current Status**

Implemented.

***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**

Implemented.

***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 roll. 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.

**Current Status**

Implemented.

Governing Board  
Hemet Unified School District

***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.

**Current Status**

Implemented.

***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.

**Current Status**

Implemented.

***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).

### **Recommendations**

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.

### **Current Status**

Implemented.

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California  
November 19, 2012