

**HEMET UNIFIED SCHOOL DISTRICT**

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ANNUAL FINANCIAL REPORT

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**JUNE 30, 2013**

# HEMET UNIFIED SCHOOL DISTRICT

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# 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

### Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

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 and 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 Education Agencies 2012-2013*, 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Hemet Unified School District, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 16 and the budgetary comparison information and other postemployment benefits information on pages 69 and 70 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.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hemet Unified School District's basic 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, 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 basic financial statements.

The supplementary information as referenced in the previous paragraph is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the *Schedule of Expenditures of Federal Awards* and other supplementary information listed in the table of contents is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2013, on our consideration of the Hemet Unified School 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hemet Unified School District's internal control over financial reporting and compliance.

*Vannink, Tein, Day & Co., LLP*

Rancho Cucamonga, California  
November 20, 2013



**Dr. Barry L. Kayrell**  
Superintendent

**Dr. LaFaye Platter**  
Deputy Superintendent

**Dr. David Horton**  
Assistant Superintendent

**Vincent Christakos**  
Assistant Superintendent

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**Governing Board**

Paul Bakkom  
Dr. Lisa DeForest  
Marilyn Forst  
Vic Scavarda  
James Smith  
Ross Valenzuela  
Joe Wojcik

This section of Hemet Unified School District's (the District) (2012-2013) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2013, with comparative information from 2012. 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.

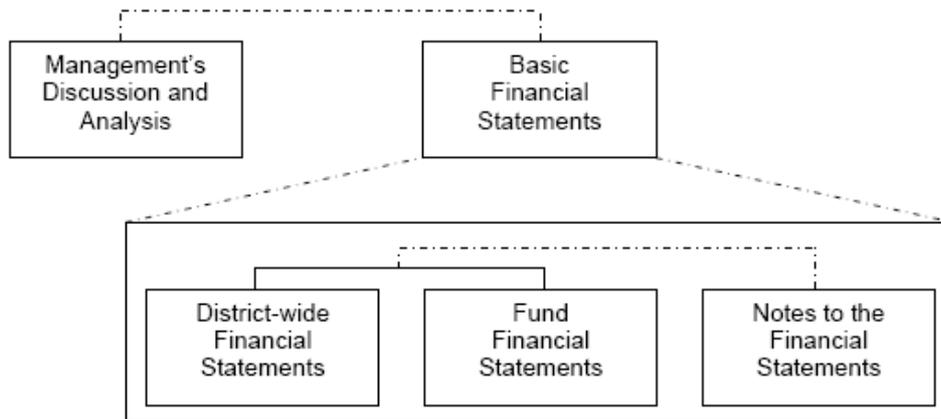
# HEMET UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

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**Figure 1**

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



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

- Total net position increased by \$2.6 million, or 0.90 percent, from the prior year for a total of \$297.9 million as a result of changes in liabilities and assets.
- Revenues, transfers in, and other financing sources for all governmental funds totaled \$262.2 million, \$5.5 million more than expenses and other financing uses.
- The General Fund's audited ending balance, which includes balances in Fund 20-Special Reserve for Post-Employment Benefits, increased by \$2.0 million from the prior year.
- The unrestricted portion of the General Fund's ending fund balance decreased by \$153,500. The restricted General Fund ending balance increased \$658,270 million and the balance in Fund 20 added \$1.5 million.
- A remarketing of the 2006 Certificates of Participation (COPs) was approved by the Governing Board on September 18, 2012, in order to take advantage of lower interest rates. In 2012-2013, the District also entered into a capital lease in the amount of \$562,808 for buses.
- A total of \$46,175,000 in short-term Tax Revenue Anticipation Notes (TRANs) was issued in 2012-2013 to cover cash shortfalls as a result of state apportionment cash deferrals. The TRANs were issued in two installments, a regular TRAN in July in the amount of \$24.9 million and a \$21.3 million cross-year TRAN in February.
- The District's 2012-2013 P-2 ADA, excluding ADA for charter school students, was reported at 19,823, a decline of 589 from the prior year. Because the district continued to experience an enrollment decline, revenue limit ADA was reported at the prior year level.
- The District filed a Qualified First Interim report in December 2012. The District's certification status was changed to Positive when its Second Interim report was filed in March 2013.

**HEMET UNIFIED SCHOOL DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2013**

Figure 2 summarizes the District's Combined General Fund activities for the 2012-2013 fiscal year. The District's total revenues as of June 30, 2013 were \$1.0 million less than projected in its Second Interim report. The decrease in revenues is primarily attributed to unspent restricted funds that were budgeted at Second Interim, but were not spent by June 30. Accounting rules for many restricted programs require that only those revenues that are spent be accounted for regardless of the total annual award amount. Final expenditures were less anticipated in Second Interim projections primarily in the Capital Outlay and Services and Operating Expenditures categories. Buses for new transportation contracts that were expected in 2012-2013 were not received until after year-end, utility expenses were lower than anticipated due to energy savings, and all amounts reserved for contracted services were not fully utilized. The decrease in amounts projected in the Other Financial Activities categories was also related to the late receipt of buses. The combined decreases 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**

Combined General Fund & Fund 20	2nd Interim Projection	Audited Actuals (excluding STRS/PERS on behalf payments)	Difference
(a) Total Revenues	\$175,806,520	\$174,768,269	<b>\$(1,038,251)</b>
(b) Total Expenditures	178,920,974	173,451,000	<b>(5,469,974)</b>
(c) Other Financial Activities	890,139	687,562	<b>(202,577)</b>
<b>Net Increase/(Decrease) a-b+c</b>	<b>(\$2,224,315)</b>	<b>\$2,004,831</b>	<b>\$4,229,146</b>
Available Fund Balance	\$ -0-	\$ -0-	\$ -0-

**REVENUE SUMMARY**

Revenue limit funding generated \$109.1 million or 61.9 percent of the District's \$174.8 million combined General Fund revenues for the 2012-2013 fiscal year.

As shown in Figure 3, there was a decrease of 525 Average Daily Attendance (ADA) from the prior year. Because the District experienced a decline in ADA from the prior year, revenue limit funding was based on 2011-2012 ADA adjusted for students transferring in and out of charter schools and other factors. With those adjustments, ADA for 2012-2013 revenue limit funding purposes was re-calculated at 20,299.

**Figure 3**

Grade Level	2011-12 P-2 ADA	2012-13 P-2 ADA	P-2 ADA Difference	Adjusted ADA for 2012-13 Revenue Limit Funding
Elementary (including County ADA)	13,805	13,322	<b>(483)</b>	13,777
Secondary (including County ADA)	6,607	6,565	<b>(42)</b>	6,522
<b>Total K-12</b>	<b>20,412</b>	<b>19,887</b>	<b>(525)</b>	<b>20,299</b>
<b>Charters</b>	490	537	<b>47</b>	N/A

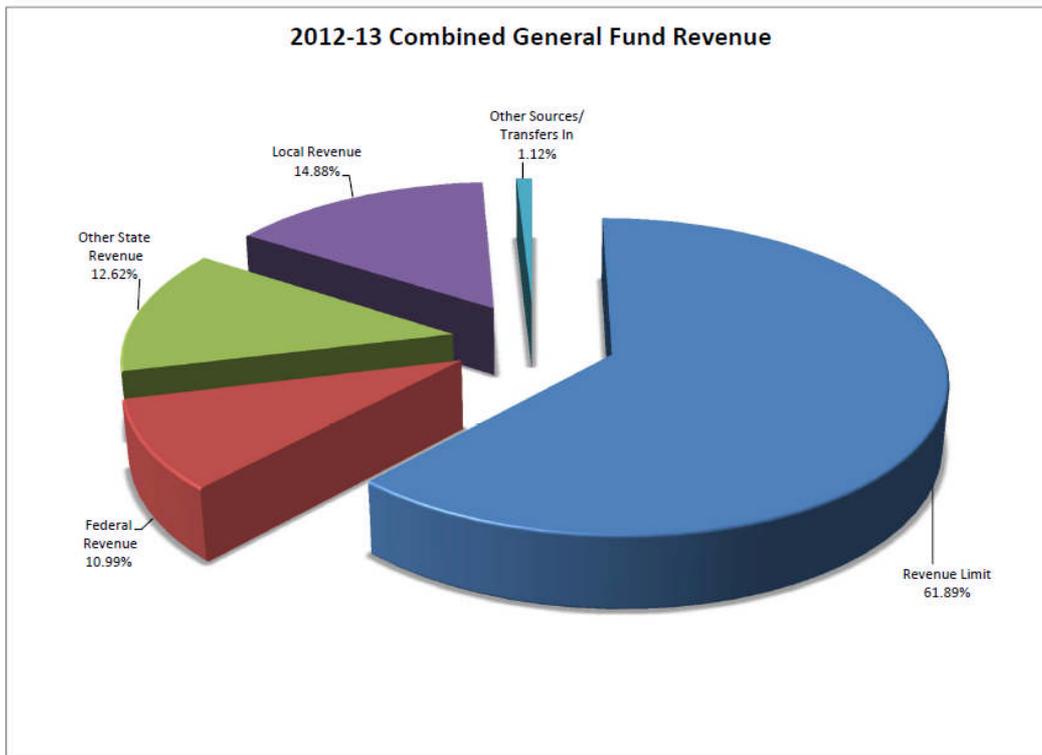
# HEMET UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

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### *Federal, Other State and Local Revenues*

Excluding on behalf contributions from the state for STRS and PERS, combined General Fund federal, other state, and local revenues at year-end were \$65.6 million, or 5.1 percent less than the prior year's total of \$69.1 million.



### **EXPENDITURE SUMMARY**

#### *Salaries and Benefits*

Salaries and benefits represent a substantial percentage of all District expenditures. In 2012-2013, salaries and benefits accounted for 81.96 percent of all combined General Fund expenditures. General Fund salaries and benefit costs totaled \$142.2 million, excluding on behalf payments to STRS/PERS. Salaries and benefits costs were relatively unchanged from the prior year.

#### *Operating Expenditures*

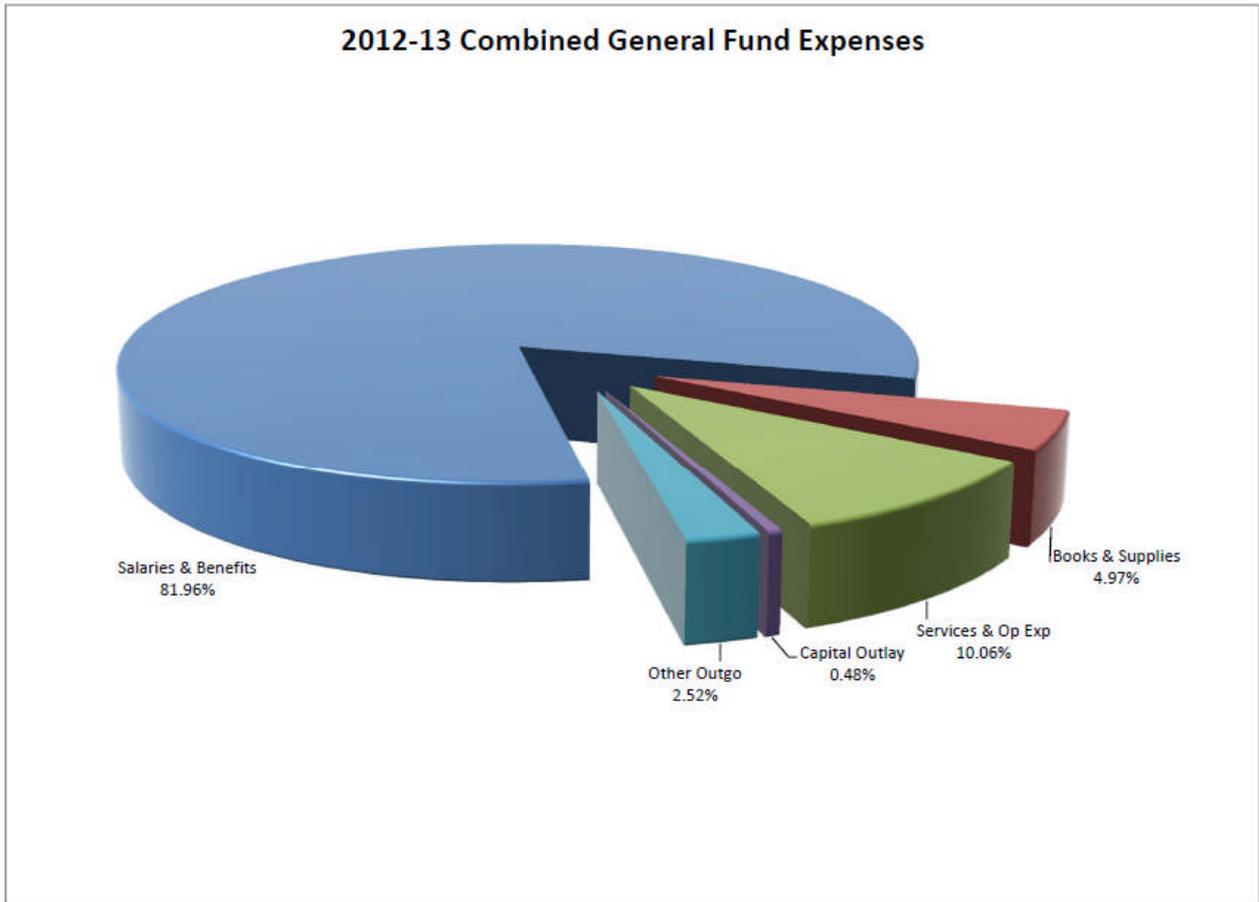
At the close of the 2012-2013 fiscal year, combined General Fund expenses in the books and supplies category totaled \$8.6 million, \$0.5 million more than reported for the prior year.

Services and other operating expenses, which include consultants, maintenance contracts, legal fees, and utilities, ended the year at \$17.5 million, or approximately \$0.8 million less than was spent in this category in 2011-2012.

# HEMET UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

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### ***DISTRICT-WIDE STATEMENTS***

#### ***The Statement of Net Position and the Statement of Activities***

The *Statement of Net Position* 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 position* and changes in them. Net position is the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources, which is one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net position will serve as a useful indicator of whether the financial position of the District 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.

# HEMET UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

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The *Statement of Net Position* and the *Statement of Activities* include *governmental activities*. The District's services are reported in this category. This includes the education of kindergarten through grade twelve students, adult education students, the operation of child development activities, and the on-going effort to improve and maintain buildings and sites. Property taxes, State income taxes, user fees, interest income, Federal, State and local grants, as well as certificates of participation, finance these activities.

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

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

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

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

***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 Position* and the *Statement of Revenues, Expenses and Changes in Fund Net Position*. 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 Position*. 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, 2013

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

#### *Net Position*

The District's net position was \$297,919,234 for the fiscal year ended June 30, 2013. Restricted net position is reported separately to show legal constraints from debt covenants, grantors, constitutional provisions, and enabling legislation that limit the governing board's ability to use net position for day-to-day operations. Our analysis below, in summary form, focuses on the net position (Table 1) and change in net position (Table 2) of the District's governmental activities.

**Table 1**

	Governmental Activities	
	2013	2012
<b>Assets</b>		
Current and other assets	\$ 135,553,313	\$ 115,576,692
Capital assets	449,230,883	455,925,985
<b>Total Assets</b>	<u>584,784,196</u>	<u>571,502,677</u>
<b>Liabilities</b>		
Current liabilities	33,249,860	17,373,226
Long-term obligations	253,615,102	258,853,341
<b>Total Liabilities</b>	<u>286,864,962</u>	<u>276,226,567</u>
<b>Net Position</b>		
Net investment in capital assets	258,377,300	255,838,353
Restricted	20,518,071	21,282,678
Unrestricted	19,023,863	18,155,079
<b>Total Net Position</b>	<u>\$ 297,919,234</u>	<u>\$ 295,276,110</u>

# HEMET UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

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### *Changes in Net Position*

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>2013</u>	<u>2012</u>
<b>Revenues</b>		
Program Revenues:		
Charges for services	\$ 10,539,591	\$ 9,925,900
Operating grants and contributions	49,507,453	52,869,306
Capital grants and contributions	12,547,740	3,836
General Revenues:		
Federal and State aid	99,951,470	108,757,589
Property taxes	41,080,080	33,811,188
Other general revenues	8,316,498	7,209,302
<b>Total Revenues</b>	<u>221,942,832</u>	<u>212,577,121</u>
<b>Expenses</b>		
Instruction-related	147,568,855	142,816,744
Pupil services	31,438,458	29,264,615
Administration	9,372,510	13,619,135
Plant services	16,513,892	13,460,442
Ancillary	2,049,390	1,865,487
Other	12,356,603	10,367,139
<b>Total Expenses</b>	<u>219,299,708</u>	<u>211,393,562</u>
<b>Change in Net Position</b>	<u>\$ 2,643,124</u>	<u>\$ 1,183,559</u>

### *Governmental Activities*

As reported in the *Statement of Activities* on page 18, the cost of all governmental activities in 2012-2013 was \$219,299,708. The amount that our taxpayers ultimately financed for these activities through local taxes was \$41,080,080. The remaining cost of was paid by those who benefited from the programs \$10,539,591 or by other governments and organizations who subsidized certain programs with \$62,055,193 in grants and contributions. The remaining "public benefit" portion of our governmental activities were paid with \$99,951,470 in Federal and State aid and \$8,316,498 with other General Fund revenue sources such as interest and general entitlements.

**HEMET UNIFIED SCHOOL DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2013**

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	
	2013	2012	2013	2012
Instruction	\$ 126,130,848	\$ 122,046,323	\$ 89,157,061	\$ 94,302,193
Instruction-related activities	21,438,007	20,770,421	14,456,142	13,211,671
Pupil services	31,438,458	29,264,615	7,568,928	5,727,271
Administration	9,372,510	13,619,135	7,131,095	11,763,777
Plant services	16,513,892	13,460,442	15,900,383	12,922,708
Ancillary services	2,049,390	1,865,487	2,034,561	1,855,605
Other	12,356,603	10,367,139	10,456,754	8,811,295
<b>Total</b>	<b>\$ 219,299,708</b>	<b>\$ 211,393,562</b>	<b>\$ 146,704,924</b>	<b>\$ 148,594,520</b>

***THE DISTRICT'S FUNDS***

Upon completion of the 2012-2013 fiscal year, the District's governmental funds reported a combined fund balance of \$94,451,384, an increase of \$5,505,825 from 2011-2012 (Table 4).

**Table 4**

	Balances and Activity			
	July 1, 2012	Revenues	Expenditures	June 30, 2013
General Fund	\$ 35,461,704	\$ 180,633,460	\$ 178,628,629	\$ 37,466,535
Building Fund	24,028,150	12,654,320	9,358,579	27,323,891
Non-Major Governmental Funds	29,455,705	68,868,302	68,663,049	29,660,958
<b>Total</b>	<b>\$ 88,945,559</b>	<b>\$ 262,156,082</b>	<b>\$ 256,650,257</b>	<b>\$ 94,451,384</b>

# HEMET UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

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### *General Fund Budgetary Highlights*

Over the course of the year, the District revised the 2012-2013 budget to address changes in revenues and expenditures that were unanticipated at the time the original budget was adopted in June 2012. Mid-year adjustments to the District's budget were approved by the Board of Education on March 5, 2013, in the District's Second Interim report. (A schedule showing the District's original and final budget amounts compared with actual expenses and revenues is provided in this annual financial report on page 69.)

The District certified its status as positive in its 2012-2013 Second Interim financial report, indicating it would have sufficient funds to meet all obligations in the current and two subsequent years. This was an improvement over the qualified status the district certified in its 2011-2012 Second Interim financial report.

### *CAPITAL ASSET AND DEBT ADMINISTRATION*

#### *Capital Assets*

At June 30, 2013, the District had \$449,230,883 in a broad range of capital assets (net of depreciation), including land, construction, buildings, and furniture and equipment. This amount represents a net decrease (including additions, deductions, and depreciation) of \$6,695,102, or 1.47 percent, over the prior year (Table 5).

**Table 5**

	Governmental Activities	
	2013	2012
Land	\$ 24,701,180	\$ 24,501,736
Construction in progress	9,443,967	28,001,717
Buildings and improvements	405,976,211	394,259,367
Equipment	9,109,525	9,163,165
<b>Total</b>	<b>\$ 449,230,883</b>	<b>\$ 455,925,985</b>

This year's additions totaled \$13.3 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.

Capital projects planned for the 2013-2014 year include a modernization project at Acacia Middle school, preliminary planning for construction of a school to replace Hemet Elementary, and miscellaneous small projects at other district schools.

# HEMET UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

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### *Long-Term Obligations*

At June 30, 2013, the District had \$220,285,902 in general obligation bonds, bond anticipation notes, and certificates of participation outstanding compared to \$224,628,692 on June 30, 2012, a decrease of \$4,342,790, or 1.93 percent. Other obligations consisted of those items listed in Table 6 below.

**Table 6**

	<u>Governmental Activities</u>	
	<u>2013</u>	<u>2012</u>
General obligation bonds	\$ 142,088,859	\$ 145,126,229
Bond anticipation notes	24,800,000	24,700,000
Certificates of participation	53,397,043	54,802,463
Lease revenue bonds	3,772,480	3,971,958
Capital leases	3,821,664	4,079,705
Accumulated vacation	863,587	829,329
SERP	4,832,114	7,673,739
Claims liability	3,895,031	4,228,296
Net OPEB obligation	16,194,324	13,441,622
<b>Total</b>	<b><u>\$ 253,665,102</u></b>	<b><u>\$ 258,853,341</u></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, 2013

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Table 7 lists the District's 2013-2014 budget assumptions. These assumptions were based on the most current information available to the District at the time the budget was adopted in June 2013. 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 2013-2014 budget, which includes site and department allocations for both staffing and operating budgets.

**Table 7**

### 2013-2014 Budget Assumptions

COLA	1.565%
COLA Deficit	18.997%
Enrollment (excluding charters)	21,0781
Enrollment Growth (Decline)	(13)
ADA – Average Daily Attendance	19,845
ADA – Funded	19,845
ADA Percentage	94.0%
Salary Increase – restore work year and salaries	5.0%
Step and Column Percent of Salaries	1.60%
Deferred/Routine Maintenance - Percent of Total Expenditures	2.03%
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 POSITION JUNE 30, 2013

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Deposits and investments	\$ 97,560,815
Receivables	34,230,948
Prepaid expenses	13,150
Stores inventories	849,802
Deferred cost on issuance	2,898,598
Capital assets	
Land and construction in process	34,145,147
Other capital assets	536,680,841
Less: Accumulated depreciation	<u>(121,595,105)</u>
Total Capital Assets	<u>449,230,883</u>
<b>TOTAL ASSETS</b>	<b><u>584,784,196</u></b>
<b>LIABILITIES</b>	
Accounts payable	9,137,211
Interest payable	3,627,363
Deferred revenue	89,038
Claims liabilities	1,756,248
Current loans	18,640,000
Long-term obligations	
Current portion of long-term obligations	8,960,107
Noncurrent portion of long-term obligations	<u>244,654,995</u>
Total Long-Term Obligations	<u>253,615,102</u>
<b>TOTAL LIABILITIES</b>	<b><u>286,864,962</u></b>
<b>NET POSITION</b>	
Net investment in capital assets	258,377,300
Restricted for:	
Debt service	9,710,620
Capital projects	1,151,795
Educational programs	9,655,656
Unrestricted	<u>19,023,863</u>
<b>TOTAL NET POSITION</b>	<b><u>\$ 297,919,234</u></b>

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

# HEMET UNIFIED SCHOOL DISTRICT

## STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<b>Governmental Activities:</b>					
Instruction	\$ 126,130,848	\$ 66,960	\$ 24,359,087	\$ 12,547,740	\$ (89,157,061)
Instruction-related activities:					
Supervision of instruction	6,750,496	7,973	5,693,163	-	(1,049,360)
Instructional library, media and technology	1,098,718	79	796,979	-	(301,660)
School site administration	13,588,793	3,432	480,239	-	(13,105,122)
Pupil services:					
Home-to-school transportation	10,606,975	8,377,365	1,728,141	-	(501,469)
Food services	10,885,627	869,203	9,009,189	-	(1,007,235)
All other pupil services	9,945,856	3,953	3,881,679	-	(6,060,224)
Administration:					
Data processing	2,319,760	803	1,777	-	(2,317,180)
All other administration	7,052,750	542,093	1,696,742	-	(4,813,915)
Plant services	16,513,892	42,473	571,036	-	(15,900,383)
Facility acquisition and construction	-	-	-	-	-
Ancillary services	2,049,390	-	14,829	-	(2,034,561)
Community services	55,879	-	-	-	(55,879)
Enterprise services	-	-	-	-	-
Principal on long-term obligations	-	-	-	-	-
Interest on long-term obligations	11,468,324	-	-	-	(11,468,324)
Other outgo	832,400	625,257	1,274,592	-	1,067,449
<b>Total Governmental Activities</b>	<b>\$ 219,299,708</b>	<b>\$ 10,539,591</b>	<b>\$ 49,507,453</b>	<b>\$ 12,547,740</b>	<b>(146,704,924)</b>
<b>General revenues and subventions:</b>					
					28,270,956
					10,203,248
					2,605,876
					99,951,470
					115,315
					2,316,905
					5,884,278
					<u>149,348,048</u>
					2,643,124
					295,276,110
					<u>\$ 297,919,234</u>

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

**HEMET UNIFIED SCHOOL DISTRICT**

**GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2013**

	<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	\$ 31,398,227	\$ 29,526,562	\$ 26,172,558	\$ 87,097,347
Receivables	31,517,945	23,977	2,681,074	34,222,996
Due from other funds	2,217,436	-	2,814,540	5,031,976
Prepaid expenditures	-	-	13,150	13,150
Stores inventories	276,360	-	573,442	849,802
<b>Total Assets</b>	<u>\$ 65,409,968</u>	<u>\$ 29,550,539</u>	<u>\$ 32,254,764</u>	<u>\$ 127,215,271</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 6,472,593	\$ 2,226,569	\$ 358,932	\$ 9,058,094
Due to other funds	2,757,950	79	2,218,726	4,976,755
Current loans	18,640,000	-	-	18,640,000
Deferred revenue	72,890	-	16,148	89,038
<b>Total Liabilities</b>	<u>27,943,433</u>	<u>2,226,648</u>	<u>2,593,806</u>	<u>32,763,887</u>
<b>Fund Balances:</b>				
Nonspendable	301,360	-	586,592	887,952
Restricted	4,991,642	27,323,891	25,957,766	58,273,299
Committed	-	-	1,822,734	1,822,734
Assigned	23,373,533	-	1,293,866	24,667,399
Unassigned	8,800,000	-	-	8,800,000
<b>Total Fund Balances</b>	<u>37,466,535</u>	<u>27,323,891</u>	<u>29,660,958</u>	<u>94,451,384</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 65,409,968</u>	<u>\$ 29,550,539</u>	<u>\$ 32,254,764</u>	<u>\$ 127,215,271</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 POSITION  
JUNE 30, 2013**

<b>Total Fund Balance - Governmental Funds</b>		\$ 94,451,384
<b>Amounts Reported for Governmental Activities in the Statement of Net Position 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:	\$ 570,825,988	
Accumulated depreciation is:	<u>(121,595,105)</u>	
Net Capital Assets		449,230,883
Expenditures relating to issuance of debt were recognized in modified accrual basis, but should not be recognized in accrual basis. Under accrual basis, these expenditures are capitalized and amortized over the life of the debt as an adjustment to interest expense.		2,898,598
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.		(3,627,363)
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:		4,735,803
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	140,475,000	
Premium on issuance, net of amortization	1,724,541	
Discount on issuance, net of amortization	(110,682)	
Bond Anticipation Notes	25,000,000	
Discount on issuance, net of amortization	(200,000)	
Certificates of participation	53,510,345	
Discount on issuance, net of amortization	(113,302)	
Lease revenue bonds	3,780,000	
Discount on issuance, net of amortization	(7,520)	
Capital lease obligations	3,821,664	
Compensated absences - accumulated vacation	863,587	
Supplemental early retirement program	4,832,114	
Net OPEB obligation	<u>16,194,324</u>	
Total Long-Term Obligations		<u>(249,770,071)</u>
<b>Total Net Position - Governmental Activities</b>		<u><u>\$ 297,919,234</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, 2013

	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Revenue limit sources	\$ 109,128,902	\$ -	\$ 2,996,188	\$ 112,125,090
Federal sources	16,329,529	-	9,813,983	26,143,512
Other State sources	27,228,421	-	16,217,918	43,446,339
Other local sources	26,239,305	102,743	12,521,139	38,863,187
<b>Total Revenues</b>	<u>178,926,157</u>	<u>102,743</u>	<u>41,549,228</u>	<u>220,578,128</u>
<b>EXPENDITURES</b>				
Current				
Instruction	104,251,379	-	3,498,131	107,749,510
Instruction-related activities:				
Supervision of instruction	6,474,551	-	168,363	6,642,914
Instructional library, media and technology	1,071,088	-	2,022	1,073,110
School site administration	12,248,900	-	602,687	12,851,587
Pupil services:				
Home-to-school transportation	11,025,861	-	-	11,025,861
Food services	49,671	-	9,873,602	9,923,273
All other pupil services	9,777,916	-	27,491	9,805,407
Administration:				
Data processing	2,292,477	-	7,505	2,299,982
All other administration	7,867,547	-	676,085	8,543,632
Plant services	15,353,180	800	1,669,062	17,023,042
Facility acquisition and construction	197,282	9,357,779	1,532,965	11,088,026
Ancillary services	2,044,844	-	240	2,045,084
Community services	55,424	-	200	55,624
Debt service				
Principal	1,096,513	-	5,130,000	6,226,513
Interest and other	341,834	-	10,324,497	10,666,331
<b>Total Expenditures</b>	<u>174,148,467</u>	<u>9,358,579</u>	<u>33,512,850</u>	<u>217,019,896</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>4,777,690</u>	<u>(9,255,836)</u>	<u>8,036,378</u>	<u>3,558,232</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	1,144,496	12,551,577	4,848,228	18,544,301
Other sources	562,807	-	22,470,846	23,033,653
Transfers out	(4,480,162)	-	(14,007,799)	(18,487,961)
Other uses	-	-	(21,142,400)	(21,142,400)
<b>Net Financing Sources (Uses)</b>	<u>(2,772,859)</u>	<u>12,551,577</u>	<u>(7,831,125)</u>	<u>1,947,593</u>
<b>NET CHANGE IN FUND BALANCES</b>	2,004,831	3,295,741	205,253	5,505,825
<b>Fund Balance - Beginning</b>	35,461,704	24,028,150	29,455,705	88,945,559
<b>Fund Balances - Ending</b>	<u>\$ 37,466,535</u>	<u>\$ 27,323,891</u>	<u>\$ 29,660,958</u>	<u>\$ 94,451,384</u>

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, 2013**

---

<b>Total Net Change in Fund Balances - Governmental Funds</b>	\$ 5,505,825
<b>Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:</b>	
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 Position and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities. This is the amount by which depreciation exceeded capital outlay in the period.	
Capital outlays	\$ 13,319,043
Depreciation expense	<u>(20,014,145)</u>
Net Expense Adjustment	(6,695,102)
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 Position.	
	(562,807)
In the Statement of Activities, certain operating expenses - compensated absences (vacations) and special termination benefits (early retirement) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, special termination benefits used was more than amounts earned by \$2,841,625. Vacation used was less than amounts earned by \$34,258.	
	2,807,367
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 \$2,752,702.	
	(2,752,702)
Proceeds received from issuance of debt is a revenue in the governmental funds, but it increases long-term obligations in the Statement of Net Position and does not affect the Statement of Activities:	
Sale of general obligation refunding bonds	(21,260,000)
Governmental funds report the effect of premiums, discounts, and issuance costs when the debt is first issued, whereas the amounts are deferred and amortized over the life of the debt in the Statement of Activities. This amount is the net effect of these related items:	
Discount on issuance for general obligation refunding bonds	117,600

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 (Continued) FOR THE YEAR ENDED JUNE 30, 2013**

---

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

General obligation bonds	\$ 24,105,000
Certificates of participation	1,410,665
Lease revenue bonds	200,000
Capital lease obligations	820,848

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 general obligation bonds	(6,918)	
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		(273,702)

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.

(528,291)

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.

(251,577)

**Change in Net Position of Governmental Activities**

\$ 2,643,124

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

**HEMET UNIFIED SCHOOL DISTRICT**

**PROPRIETARY FUND  
STATEMENT OF NET POSITION  
JUNE 30, 2013**

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	<b>Governmental Activities <u>Internal Service Fund</u></b>
<b>ASSETS</b>	
<b>Current Assets</b>	
Deposits and investments	\$ 10,463,468
Receivables	7,952
Due from other funds	1,863
<b>Total Assets</b>	<u>10,473,283</u>
<b>LIABILITIES</b>	
<b>Current Liabilities</b>	
Accounts payable	11,117
Due to other funds	57,084
Claims liability	1,774,248
<b>Total Current Liabilities</b>	<u>1,842,449</u>
<b>Noncurrent Liabilities</b>	
Long-term claims liability	3,895,031
<b>Total Liabilities</b>	<u>5,737,480</u>
<b>NET POSITION</b>	
Unrestricted	4,735,803
<b>Total Net Position</b>	<u>\$ 4,735,803</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 POSITION  
FOR THE YEAR ENDED JUNE 30, 2013**

---

	<b>Governmental Activities Internal Service Fund</b>
<b>OPERATING REVENUES</b>	
Charges to other funds and miscellaneous revenues	\$ 3,792,790
<b>OPERATING EXPENSES</b>	
Professional and contract services	4,012,805
Supplies and materials	10,676
<b>Total Operating Expenses</b>	<u>4,023,481</u>
<b>Operating Loss</b>	<u>(230,691)</u>
<b>NONOPERATING REVENUES</b>	
Interest income	<u>35,454</u>
<b>Income Before Transfers</b>	(195,237)
Transfers out	<u>(56,340)</u>
<b>Change in Net Position</b>	(251,577)
<b>Total Net Position - Beginning</b>	<u>4,987,380</u>
<b>Total Net Position - Ending</b>	<u><u>\$ 4,735,803</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, 2013**

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	<b>Governmental Activities</b>
	<b>Internal Service Fund</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash receipts from customers	\$ 7,793,317
Cash payments to suppliers for goods and services	(10,676)
Other operating cash payments	(4,069,622)
Net Cash Provided by Operating Activities	<u>3,713,019</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Transfers to other funds	<u>(56,340)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest on investments	<u>37,641</u>
Net Increase in Cash and Cash Equivalents	3,694,320
Cash and Cash Equivalents - Beginning	<u>6,769,148</u>
Cash and Cash Equivalents - Ending	<u><u>\$ 10,463,468</u></u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>	
Operating loss	\$ (230,691)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Changes in assets and liabilities:	
Due from other funds	4,000,527
Accounts payable	14,502
Due to other funds	57,084
Claims liabilities	(128,403)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u><u>\$ 3,713,019</u></u>

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

**HEMET UNIFIED SCHOOL DISTRICT**

**FIDUCIARY FUNDS  
STATEMENT OF NET POSITION  
JUNE 30, 2013**

	<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	\$ 4,987,677	\$ 1,077,521	\$ 6,065,198
Stores inventories	-	4,140	4,140
<b>Total Assets</b>	<u>\$ 4,987,677</u>	<u>\$ 1,081,661</u>	<u>\$ 6,069,338</u>
<b>LIABILITIES</b>			
Due to student groups	\$ -	\$ 1,081,661	\$ 1,081,661
Due to bond holders	4,987,677	-	4,987,677
<b>Total Liabilities</b>	<u>\$ 4,987,677</u>	<u>\$ 1,081,661</u>	<u>\$ 6,069,338</u>

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

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

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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 Position* 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, 2013

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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.

One fund currently defined as a special revenue fund in the California State Accounting Manual (CSAM) does not meet the GASB Statement No. 54 special revenue fund definition. Specifically, Fund 20, Special Reserve Fund for Postemployment Benefits, is not substantially composed of restricted or committed revenue sources. While this fund is authorized by statute and will remain open for internal reporting purposes, this fund functions effectively as an extension of the General Fund, and accordingly has been combined with the General Fund for presentation in these audited financial statements.

**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 used to account for the proceeds from specific revenue sources (other than trusts, major capital projects, or debt service) that are restricted or committed to expenditures for specified purposes 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.

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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**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.

**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 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), the 2004 State School Facilities Fund (Proposition 55), or the 2006 State Schools Facilities Fund (Proposition 1D) 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).

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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**Debt Service Funds** The Debt Service funds are used to account for the accumulation of restricted, committed, or assigned resources for and the payment of principal and interest on general long-term debt.

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

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

**Proprietary Funds** Proprietary funds are used to account for activities that are more business-like than government-like in nature. Business-type activities include those for which a fee is charged to external users or to other organizational units of the Local Education Agency, normally on a full cost-recovery basis. Proprietary funds are generally intended to be self-supporting and are classified as enterprise or internal service. The District has the following proprietary funds:

**Internal Service Fund** Internal service funds may be used to account for goods or services 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.

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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Net position 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 position restricted for other activities result from special revenue funds and the restrictions on their net asset use.

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

**Governmental Funds** All governmental funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide financial statements and the statements for the governmental funds on a modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

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

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, certain grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose requirements. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

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

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

### **Cash and Cash Equivalents**

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

### **Investments**

Investments held at June 30, 2013, 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.

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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### Capital Assets and Depreciation

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

When purchased, such assets are recorded as expenditures in the governmental funds and capitalized in the government-wide financial *Statement of Net Position*. 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 position. 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.

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

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However, claims and judgments and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases, and long-term loans are recognized as liabilities in the governmental fund financial statements when due.

### **Deferred Issuance Costs, Premiums and Discounts**

In the government-wide financial statements, long-term obligations are reported as liabilities in the applicable governmental activities *Statement of Net Position*. 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, 2013, 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, 2013, 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, 2013

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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 Position**

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets, 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, 2013. Net position is 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 position is available. The government-wide financial statements report \$20,518,071 of restricted net position.

### **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, 2013

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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.

### **Changes in Accounting Principles**

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

The District has implemented the provisions of this Statement for the year ended June 30, 2013.

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

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### New Accounting Pronouncements

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process. Prior to the issuance of this Statement, only two such pronouncements have been issued. Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, requires the reporting of a deferred outflow of resources or a deferred inflow of resources for the changes in fair value of hedging derivative instruments, and Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, requires a deferred inflow of resources to be reported by a transferor government in a qualifying service concession arrangement. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations.

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Early implementation is encouraged.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB 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 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement.

The scope of this Statement addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts that have the following characteristics:

- Contributions from employers and non-employer contributing entities to the pension plan and earnings on those contributions are irrevocable.

## HEMET UNIFIED SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

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- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- Pension plan assets are legally protected from the creditors of employers, non-employer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared. Employers are classified in one of the following categories for purposes of this Statement:

- Single employers are those whose employees are provided with defined benefit pensions through single-employer pension plans—pension plans in which pensions are provided to the employees of only one employer (as defined in this Statement).
- Agent employers are those whose employees are provided with defined benefit pensions through agent multiple-employer pension plans—pension plans in which plan assets are pooled for investment purposes but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees.
- Cost-sharing employers are those whose employees are provided with defined benefit pensions through cost-sharing multiple-employer pension plans—pension plans in which the pension obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.

In addition, this Statement details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. This Statement also addresses circumstances in which a non-employer entity has a legal requirement to make contributions directly to a pension plan.

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

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

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### NOTE 2 - DEPOSITS AND INVESTMENTS

#### Summary of Deposits and Investments

Deposits and investments as of June 30, 2013, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 97,560,815
Fiduciary funds	6,065,198
Total Deposits and Investments	<u>\$ 103,626,013</u>

Deposits and investments as of June 30, 2013, consisted of the following:

Cash on hand and in banks	\$ 4,486,506
Cash in revolving	25,000
Investments	99,114,507
Total Deposits and Investments	<u>\$ 103,626,013</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, 2013

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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, 2013**

**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	\$ 597,108	3/9/2018
Certificates of Deposit	3,258,070	9/25/2013
Riverside County Investment Pool	85,020,719	515*
Federal Home Loan Mortgage Corp. - MTN	1,266,705	3/9/2018
Federal National Mortgage Association - MTN	1,378,152	3/16/2015
Money Market Mutual Funds	6,144,796	7/1/2013
Private Export Funding Note	1,100,660	11/15/2015
Total	<u>\$ 98,766,210</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, 2013	Fair Value
Federal Home Loan Banks	AA	AAA	\$ 597,108
Certificates of Deposit	AA	AAA	3,258,070
Riverside County Investment Pool	Not Required	AAA/V1	85,020,719
Federal Home Loan Mortgage Corp. - MTN	AA	AAA	1,266,705
Federal National Mortgage Association - MTN	AA	AAA	1,378,152
Money Market Mutual Funds	Not Required	Not Required	6,144,796
Private Export Funding Note	AA	AAA	1,100,660
Total			<u>\$ 98,766,210</u>

**HEMET UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

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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, 2013, the District's bank balance was not exposed to custodial credit risk.

**NOTE 3 - RECEIVABLES**

Receivables at June 30, 2013, 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	\$ 4,197,325	\$ -	\$ 1,208,065	\$ -	\$ 5,405,390
State Government					
Apportionment	15,457,334	-	678,705	-	16,136,039
Categorical aid	3,338,686	-	609,356	-	3,948,042
Lottery	1,660,533	-	39,504	-	1,700,037
Local Government					
Interest	15,402	23,977	3,717	7,915	51,011
Other local sources	3,909,742	-	17,237	37	3,927,016
Master Plan - Charter Schools	2,938,923	-	124,490	-	3,063,413
Total	<u>\$31,517,945</u>	<u>\$ 23,977</u>	<u>\$ 2,681,074</u>	<u>\$ 7,952</u>	<u>\$34,230,948</u>

**HEMET UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013
<b>Governmental Activities</b>				
Capital Assets Not Being Depreciated				
Land	\$ 24,501,736	\$ 199,444	\$ -	\$ 24,701,180
Construction in progress	28,001,717	8,060,746	26,618,496	9,443,967
Total Capital Assets Not Being Depreciated	<u>52,503,453</u>	<u>8,260,190</u>	<u>26,618,496</u>	<u>34,145,147</u>
Capital Assets Being Depreciated				
Buildings and improvements	484,273,044	29,000,408	-	513,273,452
Furniture and equipment	20,730,448	2,676,941	-	23,407,389
Total Capital Assets Being Depreciated	<u>505,003,492</u>	<u>31,677,349</u>	<u>-</u>	<u>536,680,841</u>
Total Capital Assets	<u>557,506,945</u>	<u>39,937,539</u>	<u>26,618,496</u>	<u>570,825,988</u>
Less Accumulated Depreciation				
Buildings and improvements	90,013,677	17,283,564	-	107,297,241
Furniture and equipment	11,567,283	2,730,581	-	14,297,864
Total Accumulated Depreciation	<u>101,580,960</u>	<u>20,014,145</u>	<u>-</u>	<u>121,595,105</u>
Governmental Activities Capital Assets, Net	<u>\$ 455,925,985</u>	<u>\$ 19,923,394</u>	<u>\$ 26,618,496</u>	<u>\$ 449,230,883</u>

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

<b>Governmental Activities</b>	
Instruction	\$ 16,531,656
School site administration	540,383
Food services	940,665
All other administration	1,180,833
Plant services	820,608
Total Depreciation Expenses Governmental Activities	<u>\$ 20,014,145</u>

**HEMET UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

**NOTE 5 - INTERFUND TRANSACTIONS**

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

Interfund receivable and payable balances at June 30, 2013, between major and non-major governmental funds, and internal service funds are as follows:

Due To	Due From				Total
	General Fund	Building Fund	Non-Major Governmental Funds	Internal Service Fund	
General Fund	\$ -	\$ 79	\$ 2,160,273	\$ 57,084	\$ 2,217,436
Non-Major Governmental Funds	2,756,087	-	58,453	-	2,814,540
Internal Service Fund	1,863	-	-	-	1,863
Total	<u>\$ 2,757,950</u>	<u>\$ 79</u>	<u>\$ 2,218,726</u>	<u>\$ 57,084</u>	<u>\$ 5,033,839</u>

A balance of \$100,000 is due to the General Fund from the Child Development Non-Major Governmental Fund for temporary loan.

A balance of \$150,000 is due to the General Fund from the Charter School Non-Major Governmental Fund for temporary loan.

A balance of \$88,049 is due to the General Fund from the Charter School Non-Major Governmental Fund for special education expenses.

A balance of \$135,281 is due to the General Fund from the Cafeteria Non-Major Governmental Fund for indirect costs.

A balance of \$1,130,845 is due to the Adult Education Non-Major Governmental Fund from the General Fund for adult education expenses and contribution.

A balance of \$1,580,800 is due to the Deferred Maintenance Non-Major Governmental Fund from the General Fund for adult education expenses and contribution.

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, 2013**

**Operating Transfers**

Interfund transfers for the year ended June 30, 2013, consisted of the following:

Transfer To	Transfer From			Total
	General Fund	Non-Major Governmental Funds	Service Fund	
General Fund	\$ -	\$ 1,088,156	\$ 56,340	\$ 1,144,496
Building Fund	-	12,551,577	-	12,551,577
Non-Major Governmental Funds	4,480,162	368,066	-	4,848,228
Total	<u>\$ 4,480,162</u>	<u>\$ 14,007,799</u>	<u>\$ 56,340</u>	<u>\$ 18,544,301</u>

The General Fund transferred to the Charter School Non-Major Governmental Fund to cover costs associated with special education per memorandum of understanding.	\$ 375,026
The Adult Education Non-Major Governmental Fund transferred to the General Fund for GED account balance.	719,303
The General Fund transferred to the Debt Service Non-Major Governmental Fund for Blended Component Units for debt service payments.	3,603,989
The Cafeteria Non-Major Governmental Fund transferred to the Debt Service Non-Major Governmental Fund for Blended Component Units for debt service payments.	368,066
The General Fund transferred to the Deferred Maintenance Non-Major Governmental Fund for maintenance match.	870,000
The County School Facilities Non-Major Governmental Fund transferred to the Building Fund for reimbursement of State funded building costs.	12,551,577
The Charter School Non-Major Governmental Fund transferred to the General Fund for transportation and special education encroachment.	56,340
Total	<u>\$ 18,544,301</u>

**HEMET UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

**NOTE 6 - ACCOUNTS PAYABLE**

Accounts payable at June 30, 2013, consisted of the following:

	General Fund	Building Fund	Non-Major Governmental Funds	Internal Service Fund	Total
Vendor payables	\$ 1,739,833	\$ 60,653	\$ 311,806	\$ 11,117	\$ 2,123,409
State apportionment	4,548,430	-	27,129	-	4,575,559
Salaries and benefits	97,562	-	2,142	-	99,704
Construction	86,768	2,165,916	17,855	-	2,270,539
Claims liability	-	-	-	1,774,248	1,774,248
Total	<u>\$ 6,472,593</u>	<u>\$ 2,226,569</u>	<u>\$ 358,932</u>	<u>\$ 1,785,365</u>	<u>\$ 10,843,459</u>

**NOTE 7 - DEFERRED REVENUE**

Deferred revenue at June 30, 2013, consisted of the following:

	General Fund	Non-Major Governmental Funds	Total
Federal financial assistance	\$ 72,890	\$ -	\$ 72,890
Other local	-	16,148	16,148
Total	<u>\$ 72,890</u>	<u>\$ 16,148</u>	<u>\$ 89,038</u>

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

On February 9, 2012, the District issued \$6,965,000 in Tax and Revenue Anticipation Notes bearing interest at 2.00 percent. The notes were issued to supplement cash flows. Interest and principal were due and payable on October 31, 2012. By October 2012, the District placed 100 percent of principal and interest in an irrevocable trust for the sole purpose of satisfying the notes.

On July 2, 2012, the District issued \$24,865,000 in Tax and Revenue Anticipation Notes bearing interest at 2.00 percent. The notes were issued to supplement cash flows. Interest and principal were due and payable on February 1, 2013. By January 2013, the District placed 100 percent of principal and interest in an irrevocable trust for the sole purpose of satisfying the notes.

On February 27, 2013, the District issued \$21,310,000 in Tax and Revenue Anticipation Notes. The notes were issued to supplement cash flows. Interest and principal are due and payable on October 1, 2013. As of June 30, 2013, the District had a current loan of \$18,640,000 outstanding in relation to the Tax and Revenue Anticipation Notes.

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

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

Issue Date	Rate	Maturity Date	Outstanding July 1, 2012	Additions	Payments	Outstanding June 30, 2013
2/9/2012	2.00%	10/31/2012	\$ 6,965,000	\$ -	\$ 6,965,000	\$ -
7/2/2012	2.00%	2/1/2013	-	24,865,000	24,865,000	-
2/27/2013	2.00%	10/1/2013	-	21,310,000	2,670,000	18,640,000
			<u>\$ 6,965,000</u>	<u>\$ 46,175,000</u>	<u>\$ 34,500,000</u>	<u>\$ 18,640,000</u>

### NOTE 9 - LONG-TERM OBLIGATIONS

#### Summary

A schedule of changes in long-term obligations for the year ended June 30, 2013, is shown below:

	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013	Due in One Year
General Obligation Bonds	\$143,320,000	\$21,260,000	\$24,105,000	\$ 140,475,000	\$ 4,175,000
Premium on issuance	1,806,229	-	81,688	1,724,541	-
Discount on issuance	-	(117,600)	(6,918)	(110,682)	-
Bond Anticipation Notes	25,000,000	-	-	25,000,000	-
Discount on issuance	(300,000)	-	(100,000)	(200,000)	-
Certificates of Participation	54,921,010	-	1,410,665	53,510,345	1,470,665
Discount on issuance	(118,547)	-	(5,245)	(113,302)	-
Lease Revenue Bonds	3,980,000	-	200,000	3,780,000	205,000
Discount on issuance	(8,042)	-	(522)	(7,520)	-
Capital Leases	4,079,705	562,807	820,848	3,821,664	956,790
Accumulated Vacation - net	829,329	34,258	-	863,587	-
Supplemental Early Retirement Program	7,673,739	-	2,841,625	4,832,114	2,152,652
Long Term Claims	4,228,296	-	333,265	3,895,031	-
Net OPEB Obligation	13,441,622	4,713,470	1,960,768	16,194,324	-
Total	<u>\$ 258,853,341</u>	<u>\$ 26,452,935</u>	<u>\$ 31,641,174</u>	<u>\$ 253,665,102</u>	<u>\$ 8,960,107</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.

**HEMET UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

- The Accumulated Vacation will be paid by the fund for which the employee worked.
- Payments for Supplemental Early Retirement obligations are made by the General Fund.
- Payments for the OPEB obligation will be paid by the fund for which the employee worked.

**General Obligation Bonds Summary**

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds		Bonds Outstanding June 30, 2013
				Outstanding July 1, 2012	Issued / Redeemed	
6/4/03	8/1/27	2.75% - 5.50%	\$ 15,000,000	\$ 11,665,000	\$ - / \$ 11,130,000	\$ 535,000
5/26/04	8/1/28	4.00% - 5.00%	10,000,000	8,245,000	- / 7,905,000	340,000
5/18/05	8/1/29	3.50% - 5.00%	6,000,000	5,070,000	- / 2,310,000	2,760,000
1/17/06	8/1/30	4.00% - 6.50%	6,000,000	5,305,000	- / 185,000	5,120,000
3/1/07	8/1/37	4.00% - 5.75%	60,000,000	56,780,000	- / 1,150,000	55,630,000
3/4/08	8/1/38	4.50% - 5.25%	40,000,000	38,255,000	- / 650,000	37,605,000
7/28/10	8/1/26	4.00% - 4.50%	18,740,000	18,000,000	- / 775,000	17,225,000
7/18/12	8/1/28	2.00% - 4.00%	21,260,000	-	21,260,000 / -	21,260,000
			<u>\$ 177,000,000</u>	<u>\$ 143,320,000</u>	<u>\$ 21,260,000 / \$ 24,105,000</u>	<u>\$ 140,475,000</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, 2013, the principal balance outstanding was \$535,000.

The bonds mature through 2014 as follows:

Fiscal Year	Principal	Interest	Total
2014	<u>\$ 535,000</u>	<u>\$ 8,694</u>	<u>\$ 543,694</u>

**HEMET UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

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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, 2013, the principal balance outstanding was \$340,000.

The bonds mature through 2014 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	<u>\$ 340,000</u>	<u>\$ 6,800</u>	<u>\$ 346,800</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, 2013, the principal balance outstanding was \$2,760,000 and unamortized premium and issuance costs were \$46,105 and \$46,105, respectively.

The bonds mature through 2030 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 205,000	\$ 156,106	\$ 361,106
2015	205,000	105,269	310,269
2016	220,000	96,769	316,769
2017	-	92,369	92,369
2018	-	92,369	92,369
2019-2023	-	461,844	461,844
2024-2028	1,365,000	347,806	1,712,806
2029-2030	765,000	33,797	798,797
Total	<u>\$ 2,760,000</u>	<u>\$ 1,386,329</u>	<u>\$ 4,146,329</u>

**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, 2013, the principal balance outstanding was \$5,120,000 and unamortized premium and issuance costs were \$66,544 and \$64,250, respectively.

## HEMET UNIFIED SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

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The bonds mature through 2031 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	230,000	176,100	406,100
2019-2023	1,295,000	732,822	2,027,822
2024-2028	1,625,000	432,008	2,057,008
2029-2031	1,160,000	77,518	1,237,518
Total	<u>\$ 5,120,000</u>	<u>\$ 2,207,648</u>	<u>\$ 7,327,648</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, 2013, the principal balance outstanding was \$55,360,000 and unamortized premium and issuance costs were \$829,058 and \$509,003, respectively.

The bonds mature through 2038 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	1,540,000	2,184,184	3,724,184
2019-2023	8,710,000	9,842,745	18,552,745
2024-2028	10,725,000	7,598,007	18,323,007
2029-2033	13,185,000	5,070,582	18,255,582
2034-2038	16,100,000	1,871,998	17,971,998
Total	<u>\$ 55,630,000</u>	<u>\$ 35,989,479</u>	<u>\$ 91,619,479</u>

#### 2006 General Obligation Bonds, Series B

In March 2008, the District issued \$40,000,000 of the 2006 General Obligation Bonds, Series B. The bonds mature on August 1, 2038, with interest yields ranging from 4.50 to 5.25 percent. The proceeds from the sale of the bonds will be used to finance the acquisition and construction of new schools, classrooms, and facilities, and to repair existing schools. At June 30, 2013, the principal balance outstanding was \$37,605,000 and unamortized premium and issuance costs were \$546,536 and \$546,536, respectively.

**HEMET UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

The bonds mature through 2039 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	845,000	1,732,631	2,577,631
2019-2023	4,995,000	7,955,231	12,950,231
2024-2028	6,525,000	6,501,913	13,026,913
2029-2033	8,520,000	4,633,581	13,153,581
2034-2038	11,140,000	2,141,313	13,281,313
2039	2,610,000	65,250	2,675,250
Total	<u>\$ 37,605,000</u>	<u>\$ 30,357,813</u>	<u>\$ 67,962,813</u>

**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, 2013, the principal balance outstanding was \$17,225,000 and unamortized premium and issuance costs were \$236,298 and \$401,575, respectively.

The bonds mature through 2027 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	569,351	1,659,351
2018	1,135,000	527,705	1,662,705
2019-2023	6,355,000	1,939,182	8,294,182
2024-2027	6,065,000	544,653	6,609,653
Total	<u>\$ 17,225,000</u>	<u>\$ 5,512,458</u>	<u>\$ 22,737,458</u>

**2012 General Obligation Refunding Bonds**

In July 2012, the District issued \$21,260,000 of the 2012 General Obligation Refunding Bonds. The bonds mature on August 1, 2028, with interest yields ranging from 2.00 to 4.00 percent. The proceeds from the sale of the bonds were used to refund the outstanding 2002 General Obligation Bonds, Series B and C. At June 30, 2013, the principal balance outstanding was \$21,260,000 and unamortized discount was \$110,682.

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

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The bonds mature through 2029 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 180,000	\$ 619,975	\$ 799,975
2015	1,075,000	601,150	1,676,150
2016	1,110,000	566,875	1,676,875
2017	1,370,000	537,975	1,907,975
2018	1,395,000	506,300	1,901,300
2019-2023	7,745,000	1,846,025	9,591,025
2024-2028	7,720,000	767,081	8,487,081
2029	665,000	12,469	677,469
Total	<u>\$ 21,260,000</u>	<u>\$ 5,457,850</u>	<u>\$ 26,717,850</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, 2013, was \$25,000,000 and unamortized discount and issuance costs were \$200,000 and \$193,963, respectively.

The bonds mature through 2016 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 3,359,375</u>	<u>\$ 28,359,375</u>

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

### Certificates of Participation Summary

The outstanding certificates of participation are as follows:

Issue Date	Maturity Date	Original Issue	COP		COP Outstanding June 30, 2013
			Outstanding July 1, 2012	Issued	
10/14/04	10/01/32	\$ 23,425,000	\$ 18,990,000	\$ -	\$ 18,255,000
12/13/05	12/27/20	5,000,000	3,346,010	-	3,070,345
06/13/06	10/01/36	29,445,000	29,050,000	-	28,650,000
11/21/07	10/01/36	4,610,000	3,535,000	-	3,535,000
		<u>\$ 62,480,000</u>	<u>\$ 54,921,010</u>	<u>\$ -</u>	<u>\$ 53,510,345</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, 2013, the principal balance outstanding was \$18,255,000 and unamortized discount and issuance costs were \$34,867 and \$366,489, respectively.

The certificates mature through 2033 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
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	870,000	661,334	1,531,334
2019-2023	4,960,000	2,693,346	7,653,346
2024-2028	6,130,000	1,471,913	7,601,913
2029-2033	3,105,000	218,109	3,323,109
Total	<u>\$ 18,255,000</u>	<u>\$ 8,024,095</u>	<u>\$ 26,279,095</u>

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

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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, 2013, US Bank held \$2,125,957 for payment of principal and unamortized issuance costs were \$61,886.

The certificates mature through 2021 as follows:

Year Ending June 30,	District Payment	Expected Earned Interest	Total
2014	\$ 275,665	\$ 51,948	\$ 327,613
2015	275,665	68,827	344,492
2016	275,665	77,973	353,638
2017	275,665	87,379	363,044
2018	275,665	97,033	372,698
2019-2021	826,995	122,281	949,276
Total	<u>\$ 2,205,320</u>	<u>\$ 505,441</u>	<u>\$ 2,710,761</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, 2013, the principal balance outstanding was \$28,650,000 and unamortized issuance costs were \$336,399.

**HEMET UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

The certificates mature through 2037 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
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	695,000	1,167,067	1,862,067
2019-2023	4,255,000	5,311,385	9,566,385
2024-2028	5,895,000	4,195,254	10,090,254
2029-2033	12,595,000	2,317,886	14,912,886
2034-2037	3,220,000	296,275	3,516,275
Total	<u>\$ 28,650,000</u>	<u>\$ 18,204,036</u>	<u>\$ 46,854,036</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, 2013, the principal balance outstanding was \$3,535,000 and unamortized discount and issuance costs were \$78,435 and \$160,132, respectively.

The certificates mature through 2037 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2014	\$ -	\$ 159,075	\$ 159,075
2015	-	159,075	159,075
2016	-	159,075	159,075
2017	-	159,075	159,075
2018	-	159,075	159,075
2019-2023	-	795,375	795,375
2024-2028	160,000	789,075	949,075
2029-2033	1,170,000	649,575	1,819,575
2034-2037	2,205,000	244,013	2,449,013
Total	<u>\$ 3,535,000</u>	<u>\$ 3,273,413</u>	<u>\$ 6,808,413</u>

**HEMET UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

**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, 2013, the principal balance of \$3,780,000 remains outstanding and unamortized discount and issuance costs were \$7,520 and \$187,450, respectively.

The bonds mature through 2027 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
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	235,000	127,398	362,398
2019-2023	1,355,000	476,313	1,831,313
2024-2027	1,315,000	150,819	1,465,819
Total	<u>\$ 3,780,000</u>	<u>\$ 1,350,802</u>	<u>\$ 5,130,802</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, 2012	\$ 2,198,047	\$ 2,382,921	\$ 4,580,968
Additions	600,839	-	600,839
Payments	524,077	459,494	983,571
Balance, June 30, 2013	<u>\$ 2,274,809</u>	<u>\$ 1,923,427</u>	<u>\$ 4,198,236</u>

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

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The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2014	\$ 1,098,739
2015	998,271
2016	899,802
2017	887,801
2018	216,895
2019	96,728
Total	<u>4,198,236</u>
Less: Amount Representing Interest	<u>376,572</u>
Present Value of Minimum Lease Payments	<u>\$ 3,821,664</u>

### Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2013, amounted to \$863,587.

### 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, 2013, is \$4,832,114.

Future payments are as follows:

Year Ending June 30,	Amount
2014	\$ 2,187,712
2015	1,439,638
2016	672,502
2017	672,502
Total	<u>4,972,354</u>
Less: Amount Representing Interest	<u>140,240</u>
Total	<u>\$ 4,832,114</u>

## **HEMET UNIFIED SCHOOL DISTRICT**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013**

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#### **Claims Liability**

The District has an outstanding long-term liability for claims for the District's Workers' Compensation Insurance Program in the amount of \$3,895,031.

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

The District's annual required contribution for the year ended June 30, 2013, was \$4,175,805, and contributions made by the District during the year were \$1,351,690. Interest on the net OPEB asset/obligation and adjustments to the annual required contribution were \$537,665 and \$(609,078), respectively, which resulted in an increase to the net OPEB obligation of \$2,752,702. As of June 30, 2013, the net OPEB obligation was \$16,194,324. See Note 12 for additional information regarding the OPEB asset/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 \$35,890,000 as of June 30, 2013, 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, 2013**

**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	276,360	-	573,442	849,802
Prepaid expenditures	-	-	13,150	13,150
<b>Total Nonspendable</b>	<b>301,360</b>	<b>-</b>	<b>586,592</b>	<b>887,952</b>
<b>Restricted</b>				
Legally restricted programs	4,991,642	-	4,664,014	9,655,656
Capital projects	-	27,323,891	7,955,769	35,279,660
Debt services	-	-	13,337,983	13,337,983
<b>Total Restricted</b>	<b>4,991,642</b>	<b>27,323,891</b>	<b>25,957,766</b>	<b>58,273,299</b>
<b>Committed</b>				
Deferred maintenance	-	-	1,822,734	1,822,734
<b>Total Committed</b>	<b>-</b>	<b>-</b>	<b>1,822,734</b>	<b>1,822,734</b>
<b>Assigned</b>				
Site discretionary carryover	820,830	-	-	820,830
Adult Ed	866,483	-	-	866,483
Business summit	9,195	-	-	9,195
Health and Welfare	758,865	-	-	758,865
Equipment replacement	364,843	-	-	364,843
Medi-cal administrative activities	230,867	-	-	230,867
Erate / IT projects	980,311	-	-	980,311
Site donations	380,005	-	-	380,005
ROTC program	10,872	-	-	10,872
Transportation contracts	636,048	-	-	636,048
MYP deficits	16,139,811	-	-	16,139,811
Site lottery carryover	675,403	-	-	675,403
Postemployment Benefits	1,500,000	-	-	1,500,000
HAAAT unrestricted	-	-	113,287	113,287
HAAAT donations	-	-	2,898	2,898
HAAAT lottery	-	-	12,424	12,424
WCA unrestricted	-	-	1,039,406	1,039,406
WCA donations	-	-	28,048	28,048
WCA lottery	-	-	37,376	37,376
HUSSC	-	-	27,000	27,000
Other assignments	-	-	33,427	33,427
<b>Total Assigned</b>	<b>23,373,533</b>	<b>-</b>	<b>1,293,866</b>	<b>24,667,399</b>
<b>Unassigned</b>				
Economic uncertainties	8,800,000	-	-	8,800,000
<b>Total</b>	<b>\$ 37,466,535</b>	<b>\$ 27,323,891</b>	<b>\$ 29,660,958</b>	<b>\$ 94,451,384</b>

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

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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 149 retirees and beneficiaries currently receiving benefits and 2,082 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 2012-2013, the District contributed \$1,351,690 to the Plan, of which \$608,034 was used for current premiums and \$743,656 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	\$ 4,175,805
Interest on net OPEB obligation	537,665
Adjustment to annual required contribution	<u>(609,078)</u>
Annual OPEB cost (expense)	4,104,392
Contributions made	<u>(1,351,690)</u>
Increase in net OPEB obligation	2,752,702
Net OPEB obligation, beginning of year	<u>13,441,622</u>
Net OPEB obligation, end of year	<u><u>\$ 16,194,324</u></u>

**HEMET UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

**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
2011	\$ 4,202,014	\$ 1,218,648	29.00%	\$ 10,672,138
2012	\$ 4,195,297	\$ 1,425,813	33.99%	\$ 13,441,622
2013	\$ 4,104,392	\$ 1,351,690	32.93%	\$ 16,194,324

**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, 2012	\$ -	\$ 38,183,794	\$ 38,183,794	0%	\$ 103,466,098	37%

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, 2012, 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 7.3 percent to an ultimate rate of 5.5 percent for the plan year beginning July 1, 2013.

**HEMET UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

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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, 2011 to June 30, 2013:

	<u>Health Care</u>	<u>Workers' Compensation</u>	<u>Total</u>
Liability Balance, July 1, 2011	\$ 1,619,000	\$ 5,061,708	\$ 6,680,708
Claims provision	3,291,780	2,063,141	5,354,921
Claims paid	<u>(4,842,780)</u>	<u>(1,463,167)</u>	<u>(6,305,947)</u>
Liability Balance, June 30, 2012	68,000	5,661,682	5,729,682
Claims provision	2,156,574	1,437,333	3,593,907
Claims paid	<u>(2,156,574)</u>	<u>(1,497,736)</u>	<u>(3,654,310)</u>
Liability Balance, June 30, 2013	<u>\$ 68,000</u>	<u>\$ 5,601,279</u>	<u>\$ 5,669,279</u>
 Amount available to pay claims	 <u>\$ 1,014,511</u>	 <u>\$ 9,458,772</u>	 <u>\$ 10,473,283</u>

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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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, 100 Waterfront Place, West Sacramento, California 95605.

##### 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 2012-2013 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, 2013, 2012, and 2011, were \$6,419,936, \$6,504,838, and \$6,504,858, 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, 2013

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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 2012-2013 was 11.417 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, 2013, 2012, and 2011, were \$3,599,796, \$3,396,752, and \$3,250,360, 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 \$4,157,888 (5.176 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, 2013. 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, 2013.

### 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, 2013.

## HEMET UNIFIED SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

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#### Construction Commitments

As of June 30, 2013, the District had the following commitments with respect to the unfinished capital projects:

Capital Projects	Remaining Construction Commitments	Expected Date of Completion
Acacia Modernization (Master Plan Scheduling)	\$ 17,285,166	June 2016
E-Rate Project - Infrastructure Update - Multiple Sites	242,180	June 2014
Fruitvale Grounds Improvements	2,950	June 2014
Hemet El. - Seismic Upgrade	111,627	TBD
Hemet HS Cabling	46,485	June 2014
Hemet HS Misc - Phase 2	877,134	June 2014
Hemet HS Phase 3	61,000	June 2014
HVAC & Boiler Upgrades @ WVHS & HHS	470,105	June 2014
Idyllwild - Pedestrian Ramp at Athletic Field	61,263	June 2014
Transportation Modular Modernization	16,614	June 2014
Whittier HVAC System - MPR	14,800	TBD
	\$ 19,189,323	

#### 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, 2013, the District made payments of \$755,793 to SoCal ReLiEF, for services received.

## **HEMET UNIFIED SCHOOL DISTRICT**

### **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013**

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#### **NOTE 17 - CHARTER CLOSURE**

On June 30, 2013 the Hemet Academy of Applied Academics and Technology (HAAAT) charter high school was closed. The District has plans in place to open College Prep High School (CPHS), a new dependent charter high school on August 12, 2013 for the 2013-2014 year. HAAAT staff, students, and parents were included in the planning process for both the closure of HAAAT and the opening of CPHS. HAAAT's last day of instruction was May 31, 2013 and subsequently began financial closing procedures. All HAAAT teachers were provided positions at either CPHS or other districts schools. Students enrolled in HAAAT were also provided the opportunity to enroll in CPHS or in other district high schools.

HAAAT's audited closing net assets and liabilities are identified and disclosed as follows:

1. HAAAT is reporting a net surplus of \$152,153.
2. HAAAT has outstanding restricted funds due back to government agencies in the amount of \$14,062.
3. HAAAT has established a timeline with the Hemet Unified Governing Board to provide a detailed information the transfer of all assets, liabilities, and reserves to the College Prep High School according to provisions in its charter.
4. HAAAT is not an insolvent entity.

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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, 2013**

	<b>Budgeted Amounts</b>		<b>Actual (GAAP Basis)</b>	<b>Variances -</b>
	<b>Original</b>	<b>Final</b>		<b>Positive</b>
				<b>(Negative)</b>
				<b>Final to Actual</b>
<b>REVENUES</b>				
Revenue limit sources	\$ 101,456,264	\$ 109,097,687	\$ 109,128,902	\$ 31,215
Federal sources	16,006,381	16,284,947	16,329,529	44,582
Other State sources	20,986,718	22,613,937	27,228,421	4,614,484
Other local sources	23,897,333	26,521,694	26,239,305	(282,389)
<b>Total Revenues</b> <sup>1</sup>	<b>162,346,696</b>	<b>174,518,265</b>	<b>178,926,157</b>	<b>4,407,892</b>
<b>EXPENDITURES</b>				
Current				
Certificated salaries	78,585,337	77,520,795	76,926,803	593,992
Classified salaries	31,987,576	30,937,912	31,355,910	(417,998)
Employee benefits	32,072,544	33,813,908	38,037,161	(4,223,253)
Books and supplies	7,178,694	8,588,760	8,627,323	(38,563)
Services and operating expenditures	21,132,302	18,396,175	17,449,069	947,106
Capital outlay	173,310	1,046,934	837,058	209,876
Other outgo	(517,635)	(515,014)	(523,204)	8,190
Debt service				
Principal	1,969,318	2,235,593	1,096,513	1,139,080
Interest	2,547,519	2,625,519	341,834	2,283,685
<b>Total Expenditures</b> <sup>1</sup>	<b>175,128,965</b>	<b>174,650,582</b>	<b>174,148,467</b>	<b>502,115</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(12,782,269)</b>	<b>(132,317)</b>	<b>4,777,690</b>	<b>4,910,007</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	372,592	371,182	1,144,496	773,314
Other sources	-	424,478	562,807	138,329
Transfers out	-	(2,434,627)	(4,480,162)	(2,045,535)
<b>Net Financing Sources (Uses)</b>	<b>372,592</b>	<b>(1,638,967)</b>	<b>(2,772,859)</b>	<b>(1,133,892)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(12,409,677)</b>	<b>(1,771,284)</b>	<b>2,004,831</b>	<b>3,776,115</b>
<b>Fund Balance - Beginning</b>	<b>35,461,704</b>	<b>35,461,704</b>	<b>35,461,704</b>	<b>-</b>
<b>Fund Balance - Ending</b>	<b>\$ 23,052,027</b>	<b>\$ 33,690,420</b>	<b>\$ 37,466,535</b>	<b>\$ 3,776,115</b>

<sup>1</sup> On behalf payments of \$4,157,888 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, 2013**

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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)
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%
July 1, 2012	\$ -	\$ 38,183,794	\$ 38,183,794	0%	\$ 103,466,098	37%

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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, 2013**

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 Carl D. Perkins Vocational and Technical Education Act of 1998 Secondary Education	84.060	10011	\$ 10,513
Passed through Riverside County Special Education Local Plan Area:	84.048	14894	192,224
Individuals with Disabilities Act (IDEA)			
Special Education (IDEA) Cluster:			
Basic Local Assistance Entitlement, Part B, Section 611 Local Assistance, Part B, Section 611, Private School ISPs	84.027	13379	4,483,904
Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.027	10115	3,380
Preschool Local Entitlement, Part B, Section 611 (Age 3-4-5)	84.173	13430	80,368
IDEA Mental Health Allocation Plan, Part B, Section 611	84.027A	13682	185,197
Preschool Staff Development, Part B, Section 619	84.027A	14468	188,950
	84.173A	13431	808
Total Special Education (IDEA) Cluster			<u>4,942,607</u>
No Child Left Behind Act (NCLB):			
Title I, Part A, Basic Grants Low Income and Neglected	84.010	14981	6,247,006
Title I, Part G: Advanced Placement (AP) Test Fee Reimbursement Program	84.330B	14831	46,223
Title II, Part A Cluster:			
Title II, Part A, Improving Teacher Quality Local Grants	84.367	14341	721,474
Title II, Part A, Administrator Training	84.367	14344	12,616
Total Title II, Part A Cluster			<u>734,090</u>
Title III Cluster:			
Title III, Limited English Proficient (LEP) Student Program	84.365	14346	408,394
Title III, Immigrant Education Program	84.365	15146	56,558
Title III Cluster			<u>464,952</u>

See accompanying note to supplementary information.

**HEMET UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)  
FOR THE YEAR ENDED JUNE 30, 2013**

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
<b>U.S. DEPARTMENT OF EDUCATION (CONTINUED)</b>			
Title IV, Part B, 21st Century Community Learning Centers Program	84.287	14349	\$ 136,492
Elementary and Secondary School Counseling Discretionary Grants	84.215E	[1]	362,648
ARRA - Investing in Innovation (i3) Fund	84.411	10130	268,925
Total U.S. Department of Education			<u>13,405,680</u>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Forest Reserve	10.665	10044	56,742
Passed through California Department of Education (CDE):			
Child Nutrition Cluster:			
Especially Needy Breakfast	10.553	13526	1,952,651
National School Lunch Program	10.555	13524	6,715,560
Meal Supplement	10.555	13396	246,822
Food Distribution	10.555	13524	678,468
Total Child Nutrition Cluster			<u>9,593,501</u>
CCFP Claims - Centers and Family Day Care	10.558	13393	193,482
Team Nutrition Grants	10.574	[1]	27,000
Total U.S. Department of Agriculture			<u>9,870,725</u>
<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	1,591,841
Medical Administrative Activities Program	93.778	10060	373,615
Total Medicaid Cluster			<u>1,965,456</u>
Passed through Riverside County Office of Education (RCOE):			
Head Start	93.600	10016	993,745
Total U.S. Department of Health and Human Services			<u>2,959,201</u>
Total Federal Programs			<u>\$ 26,235,606</u>

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

See accompanying note to supplementary information.

# HEMET UNIFIED SCHOOL DISTRICT

## LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2013

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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>
Marilyn Forst	President	2016
Paul Bakkom	Vice President	2014
Lisa DeForest	Member	2016
William Sanborn	Member	2014
Jim Smith	Member	2016
Ross Valenzuela	Member	2014
Joe Wojcik	Member	2014

### ADMINISTRATION

Dr. Barry Kayrell	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, 2013**

	Final Report	
	Second Period Report	Annual Report
<b>ELEMENTARY</b>		
Kindergarten	1,346	1,346
First through third	4,425	4,429
Fourth through sixth	4,228	4,225
Seventh and eighth	2,658	2,659
Home and hospital	3	3
Special education	655	664
Total Elementary	13,315	13,326
<b>SECONDARY</b>		
Regular classes	5,623	5,581
Continuation education	467	495
Home and hospital	10	13
Special education	408	405
Total Secondary	6,508	6,494
Total K-12	19,823	19,820
<b>HAAAT CHARTER SCHOOL</b>		
Ninth through twelfth	174	171
<b>HAAAT CHARTER SCHOOL - Classroom Based Instruction</b>		
Ninth through twelfth	174	171
<b>WESTERN CENTER ACADEMY</b>		
Fourth through sixth	124	123
Seventh and eighth	239	240
Total	363	363
<b>WESTERN CENTER ACADEMY - Classroom Based Instruction</b>		
Fourth through sixth	124	123
Seventh and eighth	239	240
Total	363	363

See accompanying note to supplementary information.

# HEMET UNIFIED SCHOOL DISTRICT

## SCHEDULE OF INSTRUCTIONAL TIME FOR THE YEAR ENDED JUNE 30, 2013

Grade Level	1982-83	Reduced	1986-87	Reduced	2012-13	Number of Days		Status
	Actual	1982-83	Minutes	1986-87	Actual	Traditional	Multitrack	
	Minutes	Actual	Requirement	Minutes	Minutes	Calendar	Calendar	
Kindergarten	31,500	30,625	36,000	35,000	35,000	175	N/A	Complied
Grades 1 - 3	43,095	41,898	50,400	49,000				
Grade 1					50,010	175	N/A	Complied
Grade 2					50,010	175	N/A	Complied
Grade 3					50,010	175	N/A	Complied
Grades 4 - 6	51,075	49,656	54,000	52,500				
Grade 4					52,500	175	N/A	Complied
Grade 5					52,500	175	N/A	Complied
Grade 6					54,530	175	N/A	Complied
Grades 7 - 8	51,075	49,656	54,000	52,500				
Grade 7					54,530	175	N/A	Complied
Grade 8					54,530	175	N/A	Complied
Grades 9 - 12	56,022	54,466	64,800	63,000				
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, 2013**

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

Grade Level	1982-83	Reduced 1982-83	1986-87	Reduced 1986-87	2012-13	Number of Days		Status
	Actual Minutes	Actual Minutes	Minutes Requirement	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Grades 9 - 12	*	*	64,800	62,949				
Grade 9					63,130	175	N/A	Complied
Grade 10					63,130	175	N/A	Complied
Grade 11					63,130	175	N/A	Complied
Grade 12					63,130	175	N/A	Complied

**Western Center Academy**

Grade Level	1982-83	Reduced 1982-83	1986-87	Reduced 1986-87	2012-13	Number of Days		Status
	Actual Minutes	Actual Minutes	Minutes Requirement	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Grade 6	*	*	54,000	52,457	54,530	175	N/A	Complied
Grades 7 - 8	*	*	54,000	52,457				
Grade 7					54,530	175	N/A	Complied
Grade 8					54,530	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, 2013**

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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, 2013.

See accompanying note to supplementary information.

## HEMET UNIFIED SCHOOL DISTRICT

### SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2013

	(Budget) 2014 <sup>1</sup>	2013	2012	2011
<b>GENERAL FUND</b>				
Revenues	\$ 175,371,767	\$ 178,926,157	\$ 182,278,909	\$ 178,595,659
Other sources and transfers in	68,531	1,707,303	1,274,498	1,678,103
Total Revenues and Other Sources	175,440,298	180,633,460	183,553,407	180,273,762
Expenditures	182,469,065	174,148,467	176,565,435	169,170,026
Other uses and transfers out	377,236	4,480,162	3,662,670	5,227,239
Total Expenditures and Other Uses	182,846,301	178,628,629	180,228,105	174,397,265
INCREASE (DECREASE) IN FUND BALANCE	\$ (7,406,003)	\$ 2,004,831	\$ 3,325,302	\$ 5,876,497
ENDING FUND BALANCE	\$ 30,060,532	\$ 37,466,535	\$ 35,461,704	\$ 32,136,402
AVAILABLE RESERVES <sup>2</sup>	\$ 10,385,811	\$ 8,800,000	\$ 8,800,000	\$ 8,550,154
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO <sup>3</sup>	5.68%	5.04%	5.00%	5.00%
LONG-TERM OBLIGATIONS	N/A	\$ 253,615,102	\$ 258,853,341	\$ 259,501,376
K-12 AVERAGE DAILY ATTENDANCE AT P-2 <sup>4</sup>	19,845	19,823	20,343	20,639

The General Fund balance has increased by \$5,330,133 over the past two years. The fiscal year 2013-2014 budget projects a decrease of \$7,406,003 (19.77 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 2013-2014 fiscal year. Total long-term obligations have decreased by \$5,886,274 over the past two years.

Average daily attendance has decreased by 816 over the past two years. Growth of 22 ADA is anticipated during fiscal year 2013-2014.

<sup>1</sup> Budget 2014 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 \$4,157,888, \$4,236,820, and \$3,428,010, have been excluded from the calculation of available reserves for the fiscal years ending June 30, 2013, 2012, and 2011.

<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, 2013**

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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, 2013**

	<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	\$ 294,845	\$ 363,867	\$ 47,405	\$ 3,652,216	\$ 412,425
Receivables	1,323,177	730	119,187	1,225,844	356
Due from other funds	38,167	1,131,287	1,469	5,164	1,580,000
Prepaid expenses	13,150	-	-	-	-
Stores inventories	-	-	-	573,442	-
<b>Total Assets</b>	<b>\$ 1,669,339</b>	<b>\$ 1,495,884</b>	<b>\$ 168,061</b>	<b>\$ 5,456,666</b>	<b>\$ 1,992,781</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 52,864	\$ 6,297	\$ 27,149	\$ 76,174	\$ 170,047
Due to other funds	344,314	1,489,587	112,112	154,260	-
Deferred revenue	-	-	-	16,148	-
<b>Total Liabilities</b>	<b>397,178</b>	<b>1,495,884</b>	<b>139,261</b>	<b>246,582</b>	<b>170,047</b>
<b>Fund Balances:</b>					
Nonspendable	13,150	-	-	573,442	-
Restricted	25,572	-	28,800	4,609,642	-
Committed	-	-	-	-	1,822,734
Assigned	1,233,439	-	-	27,000	-
<b>Total Fund Balances</b>	<b>1,272,161</b>	<b>-</b>	<b>28,800</b>	<b>5,210,084</b>	<b>1,822,734</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 1,669,339</b>	<b>\$ 1,495,884</b>	<b>\$ 168,061</b>	<b>\$ 5,456,666</b>	<b>\$ 1,992,781</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>
\$ 3,369,240	\$ -	\$ 34,821	\$ 4,601,303	\$ 9,138,905	\$ 4,257,531	\$ 26,172,558
11,627	-	153	-	-	-	2,681,074
-	-	58,453	-	-	-	2,814,540
-	-	-	-	-	-	13,150
-	-	-	-	-	-	573,442
<u>\$ 3,380,867</u>	<u>\$ -</u>	<u>\$ 93,427</u>	<u>\$ 4,601,303</u>	<u>\$ 9,138,905</u>	<u>\$ 4,257,531</u>	<u>\$ 32,254,764</u>
\$ 26,401	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 358,932
-	-	60,000	-	58,453	-	2,218,726
-	-	-	-	-	-	16,148
<u>26,401</u>	<u>-</u>	<u>60,000</u>	<u>-</u>	<u>58,453</u>	<u>-</u>	<u>2,593,806</u>
-	-	-	-	-	-	586,592
3,354,466	-	-	4,601,303	9,080,452	4,257,531	25,957,766
-	-	-	-	-	-	1,822,734
-	-	33,427	-	-	-	1,293,866
<u>3,354,466</u>	<u>-</u>	<u>33,427</u>	<u>4,601,303</u>	<u>9,080,452</u>	<u>4,257,531</u>	<u>29,660,958</u>
<u>\$ 3,380,867</u>	<u>\$ -</u>	<u>\$ 93,427</u>	<u>\$ 4,601,303</u>	<u>\$ 9,138,905</u>	<u>\$ 4,257,531</u>	<u>\$ 32,254,764</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, 2013

	Charter Schools Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
<b>REVENUES</b>					
Revenue limit sources	\$ 2,996,188	\$ -	\$ -	\$ -	\$ -
Federal sources	-	-	193,482	9,620,501	-
Other State sources	748,951	-	1,280,240	745,977	710,000
Other local sources	425,266	-	60,155	1,090,237	3,004
<b>Total Revenues</b>	<u>4,170,405</u>	<u>-</u>	<u>1,533,877</u>	<u>11,456,715</u>	<u>713,004</u>
<b>EXPENDITURES</b>					
Current					
Instruction	2,489,501	-	1,008,630	-	-
Instruction-related activities:					
Supervision of instruction	17,225	-	151,138	-	-
Instructional library, media and technology	2,022	-	-	-	-
School site administration	523,534	-	79,153	-	-
Pupil services:					
Food services	608	-	208,378	9,664,616	-
All other pupil services	27,169	-	322	-	-
Administration:					
Data processing	7,505	-	-	-	-
All other administration	143,752	-	77,624	406,126	-
Plant services	514,769	-	8,164	260,694	883,808
Facility acquisition and construction	-	-	-	744,550	505,344
Ancillary services	240	-	-	-	-
Community services	200	-	-	-	-
Debt service					
Principal	-	-	-	-	-
Interest and other	-	-	-	-	-
<b>Total Expenditures</b>	<u>3,726,525</u>	<u>-</u>	<u>1,533,409</u>	<u>11,075,986</u>	<u>1,389,152</u>
<b>Excess (Deficiency) of Revenues</b>					
<b>Over Expenditures</b>	<u>443,880</u>	<u>-</u>	<u>468</u>	<u>380,729</u>	<u>(676,148)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	6,173	-	-	-	870,000
Other sources	-	-	-	-	-
Transfers out	(368,853)	(719,303)	-	(368,066)	-
Other uses	-	-	-	-	-
<b>Net Financing Sources (Uses)</b>	<u>(362,680)</u>	<u>(719,303)</u>	<u>-</u>	<u>(368,066)</u>	<u>870,000</u>
<b>NET CHANGE IN FUND BALANCES</b>					
	81,200	(719,303)	468	12,663	193,852
<b>Fund Balances - Beginning</b>	1,190,961	719,303	28,332	5,197,421	1,628,882
<b>Fund Balances - Ending</b>	<u>\$ 1,272,161</u>	<u>\$ -</u>	<u>\$ 28,800</u>	<u>\$ 5,210,084</u>	<u>\$ 1,822,734</u>

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>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,996,188
-	-	-	-	-	-	9,813,983
-	12,534,951	-	-	197,799	-	16,217,918
682,002	12,790	276	158,710	10,024,072	64,627	12,521,139
682,002	12,547,741	276	158,710	10,221,871	64,627	41,549,228
-	-	-	-	-	-	3,498,131
-	-	-	-	-	-	168,363
-	-	-	-	-	-	2,022
-	-	-	-	-	-	602,687
-	-	-	-	-	-	9,873,602
-	-	-	-	-	-	27,491
-	-	-	-	-	-	7,505
48,583	-	-	-	-	-	676,085
1,627	-	-	-	-	-	1,669,062
283,071	-	-	-	-	-	1,532,965
-	-	-	-	-	-	240
-	-	-	-	-	-	200
-	-	-	-	3,795,000	1,335,000	5,130,000
-	-	1,285,297	-	6,395,607	2,643,593	10,324,497
333,281	-	1,285,297	-	10,190,607	3,978,593	33,512,850
348,721	12,547,741	(1,285,021)	158,710	31,264	(3,913,966)	8,036,378
-	-	-	-	-	3,972,055	4,848,228
-	-	1,285,297	-	21,185,549	-	22,470,846
-	(12,551,577)	-	-	-	-	(14,007,799)
-	-	-	-	(21,142,400)	-	(21,142,400)
-	(12,551,577)	1,285,297	-	43,149	3,972,055	(7,831,125)
348,721	(3,836)	276	158,710	74,413	58,089	205,253
3,005,745	3,836	33,151	4,442,593	9,006,039	4,199,442	29,455,705
\$ 3,354,466	\$ -	\$ 33,427	\$ 4,601,303	\$ 9,080,452	\$ 4,257,531	\$ 29,660,958

**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, 2013**

(Amounts in thousands)

	Actual Results for the Years					
	2012-2013		2011-2012		2010-2011	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Amount	Percent of Revenue
<b>REVENUES</b>						
Federal revenue	\$ 16,330	9.1	\$ 20,584	11.3	18,410	10.3
State and local revenue included in revenue limit	109,129	61.0	110,215	60.4	110,995	62.1
Other State revenue	27,228	15.2	26,017	14.3	26,539	14.9
Other local revenue	17,810	10.0	17,154	9.4	13,759	7.7
Tuition and transfers in	8,429	4.7	8,309	4.6	8,894	5.0
<b>Total Revenues</b>	<b>178,926</b>	<b>100.0</b>	<b>182,279</b>	<b>100.0</b>	<b>178,597</b>	<b>100.0</b>
<b>EXPENDITURES</b>						
Salaries and Benefits						
Certificated salaries	76,927	43.0	77,917	42.7	78,171	43.8
Classified salaries	31,356	17.5	30,529	16.7	29,348	16.4
Employee benefits	38,037	21.3	38,238	21.0	34,091	19.1
<b>Total Salaries and Benefits</b>	<b>146,320</b>	<b>81.8</b>	<b>146,684</b>	<b>80.5</b>	<b>141,610</b>	<b>79.3</b>
Books and supplies	8,627	4.8	8,084	4.4	6,382	3.6
Contracts and operating expenses	17,449	9.8	18,341	10.1	18,904	10.6
Capital outlay	837	0.5	2,775	1.5	1,429	0.8
Other outgo	915	0.5	681	0.4	846	0.5
<b>Total Expenditures</b>	<b>174,148</b>	<b>97.5</b>	<b>176,565</b>	<b>96.9</b>	<b>169,171</b>	<b>94.8</b>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<b>4,778</b>	<b>2.6</b>	<b>5,714</b>	<b>3.0</b>	<b>9,426</b>	<b>5.2</b>
<b>OTHER FINANCING SOURCES (USES)</b>						
Incoming transfers/other sources	1,707	1.0	1,275	0.7	1,581	0.9
Outgoing transfers	(4,480)	(2.5)	(3,663)	(2.0)	(5,252)	(2.9)
<b>Total Financing Sources (Uses)</b>	<b>(2,773)</b>	<b>(1.5)</b>	<b>(2,388)</b>	<b>(1.3)</b>	<b>(3,671)</b>	<b>(2.0)</b>
<b>INCREASE IN FUND BALANCE</b>	<b>2,005</b>	<b>1.1</b>	<b>3,326</b>	<b>1.7</b>	<b>5,755</b>	<b>3.2</b>
<b>FUND BALANCE, BEGINNING RESTATEMENT</b>	<b>-</b>		<b>-</b>		<b>121</b>	
<b>FUND BALANCE, ENDING</b>	<b>\$ 37,467</b>		<b>\$ 35,462</b>		<b>\$ 32,136</b>	
<b>ENDING FUND BALANCE TO TOTAL REVENUES</b>		<b>20.9</b>		<b>19.5</b>		<b>14.3</b>

See accompanying note to supplementary information.

**HEMET UNIFIED SCHOOL DISTRICT**

**NOTE TO SUPPLEMENTARY INFORMATION  
JUNE 30, 2013**

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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 in Business-Type Activities, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts consist primarily of 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, 2013. 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:		\$ 26,143,512
Medi-Cal Billing Option	93.778	464,244
Medi-Cal Administrative Activities Program	93.778	<u>(372,150)</u>
Total Schedule of Expenditures of Federal Awards		<u>\$ 26,235,606</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, 2013

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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, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hemet Unified School District (the District) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Hemet Unified School District's basic financial statements, and have issued our report thereon dated November 20, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Hemet Unified School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hemet Unified School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Hemet Unified School District's internal control.

*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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hemet Unified School District's financial statements are free from 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 20, 2013.

## Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Varinck, Tein, Day & Co., LLP*

Rancho Cucamonga, California  
November 20, 2013



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR  
EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Governing Board  
Hemet Unified School District  
Hemet, California

**Report on Compliance for Each Major Federal Program**

We have audited Hemet Unified School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Hemet Unified School District's (the District) major Federal programs for the year ended June 30, 2013. Hemet Unified School District's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its Federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of Hemet Unified School District's major Federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major Federal program. However, our audit does not provide a legal determination of Hemet Unified School District's compliance.

## Opinion on Each Major Federal Program

In our opinion, Hemet Unified School District complied, in all material respects, with the types of 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, 2013.

## Report on Internal Control Over Compliance

Management of Hemet Unified School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Hemet Unified School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program 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 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Vannink, Tinn, Day & Co., LLP

Rancho Cucamonga, California  
November 20, 2013



## INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Governing Board  
Hemet Unified School District  
Hemet, California

### Report on State Compliance

We have audited Hemet Unified School District's compliance with the types of compliance requirements as identified in the *Standards and Procedures for Audit of California K-12 Local Educational Agencies 2012-2013* that could have a direct and material effect on each of the Hemet Unified School District's State government programs as noted below for the year ended June 30, 2013.

### Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its State's programs.

### Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Hemet Unified School District's State programs based on our audit of the types of compliance requirements referred to above. 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 2012-2013*. These standards 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 opinion. Our audit does not provide a legal determination of Hemet Unified School District's compliance with those requirements.

### Unmodified Opinion on Each of the Other Programs

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, 2013.

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

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
<b>Attendance Accounting:</b>		
Attendance Reporting	6	Yes
Teacher Certification and Misassignments	3	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	Yes
Continuation Education	10	Yes
<b>Instructional Time:</b>		
School Districts	6	Yes
County Offices of Education	3	Not Applicable
<b>Instructional Materials:</b>		
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
Juvenile Court Schools	8	Not Applicable
<b>Class Size Reduction Program (including in charter schools):</b>		
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
<b>After School Education and Safety Program:</b>		
General Requirements	4	Yes
After School	5	Yes
Before School	6	Not Applicable
<b>Charter Schools:</b>		
Contemporaneous Records of Attendance	1	Yes
Mode of Instruction	1	Yes
Non Classroom-Based Instruction/Independent Study	15	Not Applicable
Determination of Funding for Non Classroom-Based Instruction	3	Not Applicable
Annual Instruction Minutes Classroom-Based	4	Yes

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

*Vannink, Tim, Day & Co., LLP*

Rancho Cucamonga, California  
November 20, 2013

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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, 2013**

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**FINANCIAL STATEMENTS**

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

**FEDERAL AWARDS**

Internal control over major programs:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None reported</u>
Type of auditors' report issued on compliance for major programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133?	<u>No</u>

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>84.010</u>	<u>Title I, Part A - Basic Grants Low Income and Neglected</u>
<u>84.411</u>	<u>ARRA - Investing in Innovation (i3) Fund</u>
<u>93.778</u>	<u>Medicaid Cluster</u>
<u>93.600</u>	<u>Head Start</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 787,068</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

**STATE AWARDS**

Type of auditors' report issued on compliance for programs:	<u>Unmodified</u>
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**HEMET UNIFIED SCHOOL DISTRICT**

**FINANCIAL STATEMENT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2013**

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None reported.

**HEMET UNIFIED SCHOOL DISTRICT**

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2013**

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None reported.

**HEMET UNIFIED SCHOOL DISTRICT**

**STATE AWARDS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2013**

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None reported.

# HEMET UNIFIED SCHOOL DISTRICT

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2013

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Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's schedule of financial statement findings.

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
40000	State Compliance

**2012-1    40000 - After School Education and Safety Program – Attendance and Reporting – Early Release**

**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.

**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.

# HEMET UNIFIED SCHOOL DISTRICT

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2013

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### 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.

### Current Status

Implemented

## 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.

### 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.

## HEMET UNIFIED SCHOOL DISTRICT

### SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2013

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#### **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.

#### **Current Status**

Implemented



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, 2013, 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 20, 2013, on the financial statements of Hemet Unified School District.

## 2012-2013 OBSERVATIONS AND RECOMMENDATIONS

### *ASSOCIATED STUDENT BODY (ASB)*

#### *HAAAT Charter School – Revenue Potential Forms*

##### **Observation**

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

##### **Recommendation**

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

1. Potential Income-This lists the selling price of the item multiplied by the number of items purchased to compute the total income that should be deposited from this fundraiser if all the items were sold and all the money was turned in. This element should also be utilized to track the cost of the items, check numbers used to purchase the items, and the purchase dates. This purchasing information is a good reference source for future sales and also tracks to cost so that profits can be determined.
2. Receipts/Fundraiser Deposits-This records all deposits turned in which are from funds generated from the sale. The receipt number issued to the advisor, date, and deposit amount should be logged. This is necessary to be able to recap the deposits of the sale and to trace these deposits to the appropriate accounts at the end of the sale to the appropriate accounts to ensure that all postings were correct.

3. Analysis-This section is used to compare the potential income as calculated in the Potential Income section to the actual funds raised as calculated in the Receipts/Fundraiser Deposits section. The difference between these two amounts should be documented and explained. The explanation can consist of merchandise not sold, merchandise lost or destroyed, or funds lost or stolen.
4. Recap-This section figures the net profit of the sale. Further fundraisers of this type can be planned or canceled depending on the information calculated in this section.

### ***Alessandro High School – Prohibited Expenditures***

#### **Observation**

It was noted that the Associated Student Body issued checks to students to be given away as rewards for "monthly achievement".

#### **Recommendation**

Expenditure of student funds for the following items is not usually allowable because they do not directly promote the general welfare, morale or educational experience of the students, or are considered a district responsibility, or are a gift of public funds:

- Salaries or supplies that are the responsibility of the district. Some examples are a 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.

### ***Tahquitz High School – Bank Reconciliations***

#### **Observation**

The bank statement and reconciliation for the month of June were not prepared in a timely manner. Therefore, the associated student body was not aware of their available cash balance.

#### **Recommendation**

Monthly bank reconciliations must be prepared in a timely manner in order to ensure that the cash balance reported on the general ledger is accurate and that no errors have been made by the financial institution.

Governing Board  
Hemet Unified School District

***DISTRICT OFFICE***

***Bank Statement and Reconciliation***

**Observation**

The Adult Education bank statement and reconciliation for the month of June were not prepared in a timely manner. Therefore, the District was not aware of their available cash balance.

**Recommendation**

Monthly bank reconciliations must be prepared in a timely manner in order to ensure that the cash balance reported on the general ledger is accurate and that no errors have been made by the financial institution.

**2011-2012 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

***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.

Governing Board  
Hemet Unified School District

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

**Current Status**

Implemented

***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

Governing Board  
Hemet Unified School District

***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.

Governing Board  
Hemet Unified School District

**Current Status**

Implemented

*Varrink, Tim, Day & Co., LLP*

Rancho Cucamonga, California  
November 20, 2013