

**HEMET UNIFIED SCHOOL DISTRICT**

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ANNUAL FINANCIAL REPORT

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**JUNE 30, 2014**

# HEMET UNIFIED SCHOOL DISTRICT

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***FINANCIAL SECTION***

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## INDEPENDENT AUDITOR'S 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, the business-type 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, 2014, 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 2013-2014*, 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, the business-type activities, each major fund, and the aggregate remaining fund information of the Hemet Unified School District, as of June 30, 2014, 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.

## **Emphasis of Matter - Change in Accounting Principles**

As discussed in Note 17 to the financial statements, the District has elected to change its method of accounting for cost of debt issuance as prescribed by GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as management's discussion and analysis on pages 5 through 17, and budgetary comparison and other postemployment benefit information on pages 70 and 71, respectively, 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 accompanying supplementary information such as the combining and individual nonmajor fund financial statements and Schedule of Expenditures of Federal Awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the other supplementary information as listed on the table of contents, such as the introductory and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information 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 accompanying supplementary information 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 December 15, 2014, 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.

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California  
December 15, 2014



**Dr. Barry L. Kayrell**  
Superintendent

**Dr. LaFaye Platter**  
Deputy Superintendent

**Dr. David Horton**  
Assistant Superintendent

**Vince Christakos**  
Assistant Superintendent

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**Governing Board**

Dr. Lisa DeForest  
Marilyn Forst  
Megan Haley  
Vic Scavarda  
James Smith  
Ross Valenzuela  
Joe Wojcik

This section of Hemet Unified School District's (the District) (2013-2014) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2014, with comparative information from 2013. 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 Business-Type 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.



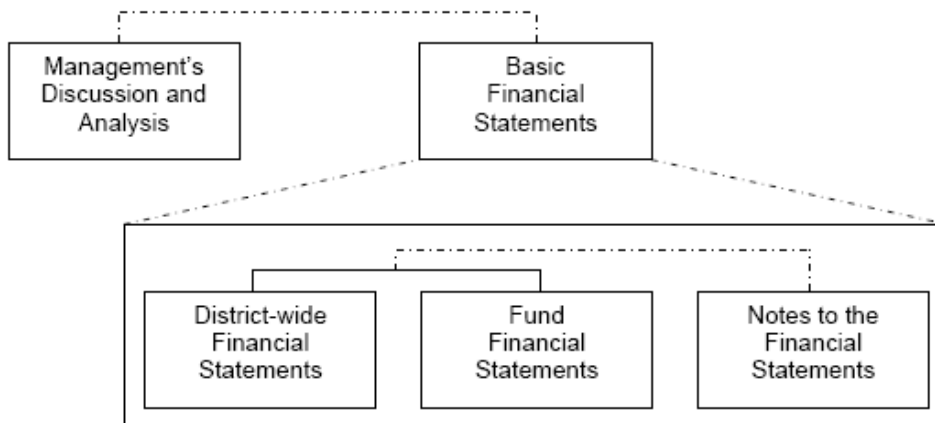
**HEMET UNIFIED SCHOOL DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2014**

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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 decreased by \$3.2 million, or one percent, from the prior year for a total of \$291.8 million as a result of changes in liabilities and assets.
- Revenues, transfers in, and other financing sources for all governmental funds totaled \$216.5 million, \$16.4 million less 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 and Fund 17 Special Reserve decreased by \$1.9 million from the prior year.
- The ending fund balance in Fund 03/06 General Fund as of June 30, 2014 was \$30.4 million. The balance in Fund 17 was \$3.6 million and Fund 20's ending balance remained at \$1.5 million.
- A re-offering of the 2006 Certificates of Participation (COPs) was approved by the Governing Board on September 17, 2013, in order to take advantage of lower interest rates. In 2013-2014, the District also entered into a capital lease in the amount of \$1.7 million for buses. The annual lease payments are supported by transportation contracts with other districts.
- The District's 2013-2014 P-2 Average Daily Attendance (ADA), excluding ADA for charter school students, was reported at 19,824, a growth of one ADA from the prior year.
- The District filed a positive status with both its First Interim report in December 2013, and Second Interim report in March 2014.

**HEMET UNIFIED SCHOOL DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2014**

Figure 2 summarizes the District's Combined General Fund activities for the 2013-2014 fiscal year. The District's total revenues as of June 30, 2014 were \$13.0 million less than projected in its Second Interim report. The decrease in revenues is primarily attributed the transfer of transportation services contract revenues to Fund 63. Final expenditures were \$20 million less than anticipated in Second Interim projections. Changes in expenditures were primarily related to the transfer of transportation services contract expenses to Fund 63 and failure to agree to a budgeted salary increase for certificated bargaining unit members. Transfers in from other funds increased from Second Interim projections by \$1.1 million and was for transportation contract administrative oversight from Fund 63. Transfers out to other funds increased by \$\$2.0 million from Second Interim estimates and was related to a change in accounting for the transfer to Fund 14 for deferred maintenance. Excluding Fund 17 and Fund 20, the June 30 ending fund balance for the combined general fund was \$1.7 million more than was anticipated in the district's 2013-2014 Second Interim Report. Fund 17 reserved \$3.6 million for pending salary settlement costs and \$1.5 million is reserved in Fund 20 for other postemployment benefit costs.

**Figure 2**

Combined General Fund & Funds 17 and 20	2nd Interim Projection	Audited Actuals (excluding CalSTRS/CalPERS on behalf payments)	Difference
(a) Total Revenues	\$ 188,109,061	\$ 175,142,042	<b>\$(12,967,019)</b>
(b) Total Expenditures	197,054,479	177,792,855	<b>(19,261,624)</b>
(c) Other Financial Activities	1,852,317	715,633	<b>( 1,136,684)</b>
<b>Net Increase/(Decrease) a-b+c</b>	<b>(\$ 7,093,101)</b>	<b>(\$ 1,935,180)</b>	<b>\$ 5,157,921</b>
Available Fund Balance	\$ -0-	\$ -0-	\$ -0-

**HEMET UNIFIED SCHOOL DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2014**

**REVENUE SUMMARY**

The Local Control Funding Formula (LCFF) generated \$132.1 million or 61.9 percent of the District's \$174.8 million combined General Fund revenues for the 2013-2014 fiscal year.

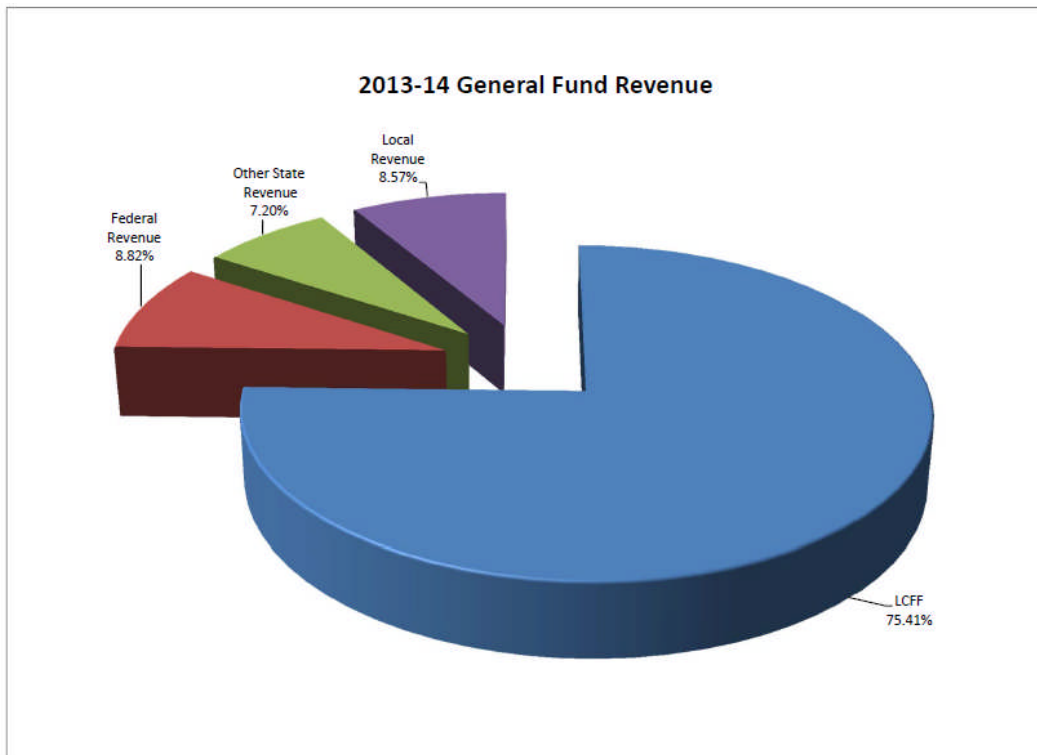
As shown in Figure 3, Average Daily Attendance (ADA) remained essentially unchanged from the prior year.

**Figure 3**

	2012-2013 <b>P-2</b> ADA	2013-2014 <b>P-2</b> ADA	<b>P-2</b> ADA Difference	Adjusted ADA for 2013-2014 LCFF
K-12 ADA	19,823	19,824	<b>1</b>	19,824
<b>Charters</b>	537	549	<b>12</b>	N/A

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

Excluding on behalf contributions from the State for CalSTRS and CalPERS, combined General Fund LCFF, Federal, other State, and local revenues at year-end was \$175.1 million, or 0.2 percent more than the prior year's total of \$174.8 million.



# HEMET UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014

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### *EXPENDITURE SUMMARY*

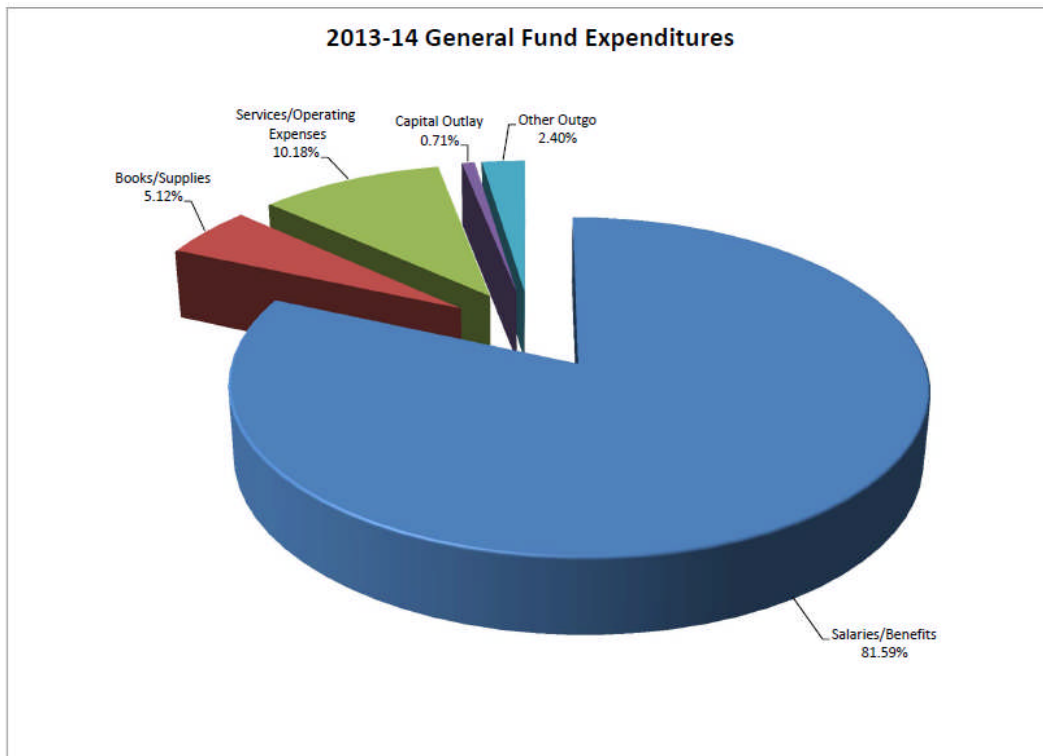
#### *Salaries and Benefits*

Salaries and benefits represent a substantial percentage of all District expenditures. In 2013-2014, salaries and benefits accounted for 81.59 percent of all combined General Fund expenditures. General Fund salaries and benefit costs totaled \$145.0 million, excluding on behalf payments to CalSTRS/CalPERS. Salaries and benefits costs increased 2.0 percent over the prior year.

#### *Operating Expenditures*

At the close of the 2013-2014 fiscal year, combined General Fund expenses in the books and supplies category totaled \$9.1 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 amounted to \$18.1 million, or approximately \$0.7 million more than was spent in this category in 2012-2013.



# HEMET UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014

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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.

In the *Statement of Net Position* and the *Statement of Activities*, we separate the District activities as follows:

***Governmental Activities*** - Most of 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.

***Business-Type Activities*** - The District charges fees to help it cover the costs of certain services it provides. The District's transportation operations are included in this category.

# HEMET UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014

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

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

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

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

***Proprietary Funds*** - When the District charges users for the services it provides, whether to outside customers or to other departments within the District, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the *Statement of Net 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 and Transportation (Enterprise 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, 2014

### FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

#### Net Position

The District's net position was \$291.9 million for the fiscal year ended June 30, 2014. 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 and business-type activities.

**Table 1**

(Amounts in millions)	Governmental Activities		Business-Type Activities		School District Activities	
	(As Restated)				(As Restated)	
	2014	2013	2014	2013	2014	2013
<b>Assets</b>						
Current and other assets	114.7	\$ 132.6	\$ 1.5	\$ -	\$ 116.2	\$ 132.6
Capital assets	450.2	449.2	4.4	-	454.6	449.2
<b>Total Assets</b>	<b>564.9</b>	<b>581.8</b>	<b>5.9</b>	<b>-</b>	<b>570.8</b>	<b>581.8</b>
<b>Liabilities</b>						
Current liabilities	29.8	33.2	0.4	-	30.2	33.2
Long-term obligations	246.0	253.6	2.7	-	248.7	253.6
<b>Total Liabilities</b>	<b>275.8</b>	<b>286.8</b>	<b>3.1</b>	<b>-</b>	<b>278.9</b>	<b>286.8</b>
<b>Net Position</b>						
Net investment in capital assets	249.4	255.5	1.7	-	251.1	255.5
Restricted	22.6	20.5	1.1	-	23.7	20.5
Unrestricted	17.1	19.0	-	-	17.1	19.0
<b>Total Net Position</b>	<b>\$ 289.1</b>	<b>\$ 295.0</b>	<b>\$ 2.8</b>	<b>\$ -</b>	<b>\$ 291.9</b>	<b>\$ 295.0</b>

# HEMET UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014

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

**Table 2**

(Amounts in millions)	Governmental Activities		Business-Type Activities		School District Activities	
	2014	2013	2014	2013	2014	2013
<b>Revenues</b>						
Program Revenues:						
Charges for services	\$ 1.2	\$ 10.5	\$ 12.6	\$ -	\$ 13.8	\$ 10.5
Operating grants and contributions	50.4	49.5	-	-	50.4	49.5
Capital grants and contributions	-	12.5	-	-	-	12.5
General Revenues:						
Federal and State aid	115.6	100.0	-	-	115.6	100.0
Property taxes	37.0	41.1	-	-	37.0	41.1
Other general revenues	4.5	8.3	2.5	-	7.0	8.3
<b>Total Revenues</b>	<b>208.7</b>	<b>221.9</b>	<b>15.1</b>	<b>-</b>	<b>223.8</b>	<b>221.9</b>
<b>Expenses</b>						
Instruction-related	150.4	147.6	-	-	150.4	147.6
Pupil services	25.9	31.4	-	-	25.9	31.4
Administration	10.7	9.4	-	-	10.7	9.4
Plant services	19.2	16.5	-	-	19.2	16.5
Ancillary	1.2	2.0	-	-	1.2	2.0
Other	8.3	12.4	11.3	-	19.6	12.4
<b>Total Expenses</b>	<b>215.7</b>	<b>219.3</b>	<b>11.3</b>	<b>-</b>	<b>227.0</b>	<b>219.3</b>
Transfers	1.1	-	(1.1)	-	-	-
<b>Change in Net Position</b>	<b>\$ (5.9)</b>	<b>\$ 2.6</b>	<b>\$ 2.7</b>	<b>\$ -</b>	<b>\$ (3.2)</b>	<b>\$ 2.6</b>

### *Governmental Activities*

As reported in the *Statement of Activities* on page 19, the cost of all governmental activities in 2013-2014 was \$215.7 million. The amount that our taxpayers ultimately financed for these activities through local taxes was \$37.0 million. The remaining cost of was paid by those who benefited from the programs \$1.2 million or by other governments and organizations who subsidized certain programs with \$50.4 million in grants and contributions. The remaining "public benefit" portion of our governmental activities were paid with \$115.6 million in Federal and State aid and \$4.4 million with other General Fund revenue sources such as interest and general entitlements.



**HEMET UNIFIED SCHOOL DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2014**

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**

(Amounts in millions)	<u>Total Cost of Services</u>		<u>Total Net Cost of Services</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Instruction	\$ 126.9	\$ 126.1	\$ 101.4	\$ 89.2
Instruction-related activities	23.5	21.4	16.7	14.5
Pupil services	25.9	31.4	10.1	7.6
Administration	10.7	9.4	8.8	7.1
Plant services	19.2	16.5	18.2	15.9
Ancillary services	1.2	2.0	1.2	2.0
Other	8.3	12.4	7.6	10.5
<b>Total</b>	<b>\$ 215.7</b>	<b>\$ 219.2</b>	<b>\$ 164.0</b>	<b>\$ 146.8</b>

***THE DISTRICT'S FUNDS***

Upon completion of the 2013-2014 fiscal year, the District's governmental funds reported a combined fund balance of \$78.1 million, a decrease of \$16.4 million from 2012-2013 (Table 4).

**Table 4**

(Amounts in millions)	<u>Balances and Activity</u>			
	<u>July 1, 2013</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>June 30, 2014</u>
General Fund	37.5	180.8	182.8	35.5
Building Fund	27.3	0.1	14.6	12.8
Non-Major Governmental Funds	29.7	35.6	35.5	29.8
<b>Total</b>	<b>94.5</b>	<b>216.5</b>	<b>232.9</b>	<b>78.1</b>

***General Fund Budgetary Highlights***

Over the course of the year, the District revised the 2013-2014 budget to address changes in revenues and expenditures that were unanticipated at the time the original budget was adopted in June 2013. Mid-year adjustments to the District's budget were approved by the Board of Education on March 4, 2014, 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 70.)

**HEMET UNIFIED SCHOOL DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2014**

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***CAPITAL ASSET AND DEBT ADMINISTRATION***

***Capital Assets***

At June 30, 2014, the District had \$454.6 million in a broad range of capital assets (net of depreciation), including land, construction, buildings, and furniture and equipment. This amount represents a net increase (including additions, deductions, and depreciation) of \$5.4 million, or 1.2 percent, over the prior year (Table 5).

**Table 5**

(Amounts in millions)	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>School District Activities</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Land	\$ 24.7	\$ 24.7	\$ -	\$ -	\$ 24.7	\$ 24.7
Construction in progress	24.2	9.4	-	-	24.2	9.4
Buildings and improvements	394.1	406.0	-	-	394.1	406.0
Equipment	7.2	9.1	4.4	-	11.6	9.1
<b>Total</b>	<b>\$ 450.2</b>	<b>\$ 449.2</b>	<b>\$ 4.4</b>	<b>\$ -</b>	<b>\$ 454.6</b>	<b>\$ 449.2</b>

This year's additions totaled \$18.1 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 2014-2015 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, 2014

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### *Long-Term Obligations*

At June 30, 2014, the District had \$214.6 million in general obligation bonds, bond anticipation notes, and certificates of participation outstanding compared to \$220.3 million on June 30, 2013, a decrease of \$5.7 million, or 2.6 percent. Other obligations consisted of those items listed in Table 6 below.

**Table 6**

(Amounts in millions)	Governmental Activities		Business-Type Activities		School District Activities	
	2014	2013	2014	2013	2014	2013
General obligation bonds	\$ 137.8	\$ 142.1	\$ -	\$ -	\$ 137.8	\$ 142.1
Bond anticipation notes	24.9	24.8	-	-	24.9	24.8
Certificates of participation	51.9	53.4	-	-	51.9	53.4
Lease revenue bonds	3.6	3.8	-	-	3.6	3.8
Capital leases	1.3	3.8	2.7	-	4.0	3.8
Accumulated vacation	1.0	0.9	-	-	1.0	0.9
SERP	2.7	4.8	-	-	2.7	4.8
Claims liability	4.1	3.9	-	-	4.1	3.9
Net OPEB obligation	18.7	16.2	-	-	18.7	16.2
<b>Total</b>	<b>\$ 246.0</b>	<b>\$ 253.7</b>	<b>\$ 2.7</b>	<b>\$ -</b>	<b>\$ 248.7</b>	<b>\$ 253.7</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, 2014

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Table 7 lists the District's 2014-2015 budget assumptions. These assumptions were based on the most current information available to the District at the time the budget was adopted in June 2014. 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 2014-2014 budget, which includes site and department allocations for both staffing and operating budgets.

**Table 7**

### 2014-2015 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, 2014

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Deposits and investments	\$ 65,423,201	\$ 53,934	\$ 65,477,135
Receivables	44,820,312	5,078,456	49,898,768
Internal balances	3,650,616	(3,650,616)	-
Stores inventories	742,895	-	742,895
Capital assets			
Land and construction in process	48,886,067	-	48,886,067
Other capital assets	533,483,323	8,783,023	542,266,346
Less: Accumulated depreciation	(132,150,763)	(4,408,361)	(136,559,124)
Total Capital Assets	<u>450,218,627</u>	<u>4,374,662</u>	<u>454,593,289</u>
<b>TOTAL ASSETS</b>	<u>564,855,651</u>	<u>5,856,436</u>	<u>570,712,087</u>
<b>LIABILITIES</b>			
Accounts payable	25,151,729	428,427	25,580,156
Interest payable	2,833,952	-	2,833,952
Unearned revenue	36,120	-	36,120
Claims liabilities	1,740,896	-	1,740,896
Long-term obligations			
Current portion of long-term obligations	7,912,872	815,326	8,728,198
Noncurrent portion of long-term obligations	<u>238,106,928</u>	<u>1,890,336</u>	<u>239,997,264</u>
Total Long-Term Obligations	<u>246,019,800</u>	<u>2,705,662</u>	<u>248,725,462</u>
<b>TOTAL LIABILITIES</b>	<u>275,782,497</u>	<u>3,134,089</u>	<u>278,916,586</u>
<b>NET POSITION</b>			
Net investment in capital assets	249,399,744	1,669,000	251,068,744
Restricted for:			
Debt service	11,107,509	-	11,107,509
Capital projects	1,506,056	-	1,506,056
Educational programs	9,959,324	-	9,959,324
Other restrictions	-	1,053,347	1,053,347
Unrestricted	<u>17,100,521</u>	<u>-</u>	<u>17,100,521</u>
<b>TOTAL NET POSITION</b>	<u>\$ 289,073,154</u>	<u>\$ 2,722,347</u>	<u>\$ 291,795,501</u>

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

# HEMET UNIFIED SCHOOL DISTRICT

## STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2014

Functions/Programs	Expenses	Program Revenues	
		Charges for Services and Sales	Operating Grants and Contributions
<b>Governmental Activities:</b>			
Instruction	\$ 126,929,608	\$ 54,178	\$ 25,524,994
Instruction-related activities:			
Supervision of instruction	7,435,107	6,207	5,317,026
Instructional library, media and technology	1,352,934	27	954,745
School site administration	14,707,564	3,983	527,088
Pupil services:			
Home-to-school transportation	2,841,594	-	194,608
Food services	11,799,534	966,434	10,592,603
All other pupil services	11,246,937	5,004	3,981,920
Administration:			
Data processing	2,361,276	16	54,880
All other administration	8,381,775	54,502	1,788,628
Plant services	19,164,307	21,225	934,817
Ancillary services	1,193,614	17	6,308
Community services	101,168	-	-
Enterprise services	90,092	-	-
Interest on long-term obligations	7,522,107	-	-
Other outgo	593,272	115,101	542,775
<b>Total Governmental Activities</b>	<b>215,720,889</b>	<b>1,226,694</b>	<b>50,420,392</b>
<b>Business-Type Activities</b>			
Transportation	11,256,335	12,596,056	875
<b>Total School District</b>	<b>\$ 226,977,224</b>	<b>\$ 13,822,750</b>	<b>\$ 50,421,267</b>

### General Revenues and Subventions:

Property taxes, levied for general purposes  
Property taxes, levied for debt service  
Taxes levied for other specific purposes  
Federal and State aid not restricted to specific purposes  
Interest and investment earnings  
Transfers between agencies  
Miscellaneous

### Subtotal, General Revenues

### Excess of Revenues Over Expenses

Transfers between funds

### Total General Revenues and Transfers

### Change in Net Position

### Net Position - Beginning

### Restatement

### Net Position - Beginning (As Restated)

### Net Position - Ending

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

**Net (Expenses) Revenues and  
Changes in Net Position**

<b>Governmental Activities</b>	<b>Business- Type Activities</b>	<b>Total</b>
\$ (101,350,436)	\$ -	\$ (101,350,436)
(2,111,874)	-	(2,111,874)
(398,162)	-	(398,162)
(14,176,493)	-	(14,176,493)
(2,646,986)	-	(2,646,986)
(240,497)	-	(240,497)
(7,260,013)	-	(7,260,013)
(2,306,380)	-	(2,306,380)
(6,538,645)	-	(6,538,645)
(18,208,265)	-	(18,208,265)
(1,187,289)	-	(1,187,289)
(101,168)	-	(101,168)
(90,092)	-	(90,092)
(7,522,107)	-	(7,522,107)
64,604	-	64,604
<u>(164,073,803)</u>	<u>-</u>	<u>(164,073,803)</u>
-	1,340,596	1,340,596
<u>(164,073,803)</u>	<u>1,340,596</u>	<u>(162,733,207)</u>
23,531,040	-	23,531,040
10,721,603	-	10,721,603
2,732,551	-	2,732,551
115,574,433	-	115,574,433
111,120	1,764	112,884
338,603	-	338,603
3,991,336	2,505,622	6,496,958
<u>157,000,686</u>	<u>2,507,386</u>	<u>159,508,072</u>
(7,073,117)	3,847,982	(3,225,135)
<u>1,125,635</u>	<u>(1,125,635)</u>	<u>-</u>
(5,947,482)	2,722,347	(3,225,135)
<u>297,919,234</u>	<u>-</u>	<u>297,919,234</u>
(2,898,598)	-	(2,898,598)
<u>295,020,636</u>	<u>-</u>	<u>295,020,636</u>
<u>\$ 289,073,154</u>	<u>\$ 2,722,347</u>	<u>\$ 291,795,501</u>

**HEMET UNIFIED SCHOOL DISTRICT**

**GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2014**

	<b>General Fund</b>	<b>Building Fund</b>	<b>Non-Major Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>				
Deposits and investments	\$ 11,991,669	\$ 13,941,675	\$ 28,010,745	\$ 53,944,089
Receivables	42,306,800	13,121	2,491,724	44,811,645
Due from other funds	4,133,598	-	581,526	4,715,124
Stores inventories	271,906	-	470,989	742,895
<b>Total Assets</b>	<b>\$ 58,703,973</b>	<b>\$ 13,954,796</b>	<b>\$ 31,554,984</b>	<b>\$ 104,213,753</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 22,426,456	\$ 1,185,964	\$ 1,332,858	\$ 24,945,278
Due to other funds	734,153	4,762	438,177	1,177,092
Unearned revenue	12,009	-	24,111	36,120
<b>Total Liabilities</b>	<b>23,172,618</b>	<b>1,190,726</b>	<b>1,795,146</b>	<b>26,158,490</b>
<b>Fund Balances:</b>				
Nonspendable	296,906	-	470,989	767,895
Restricted	4,534,590	12,764,070	26,871,901	44,170,561
Committed	1,503,919	-	846,933	2,350,852
Assigned	20,085,940	-	1,570,015	21,655,955
Unassigned	9,110,000	-	-	9,110,000
<b>Total Fund Balances</b>	<b>35,531,355</b>	<b>12,764,070</b>	<b>29,759,838</b>	<b>78,055,263</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 58,703,973</b>	<b>\$ 13,954,796</b>	<b>\$ 31,554,984</b>	<b>\$ 104,213,753</b>

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, 2014**

<b>Total Fund Balance - Governmental Funds</b>		\$ 78,055,263
<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:	\$ 582,369,390	
Accumulated depreciation is:	<u>(132,150,763)</u>	
Net Capital Assets		450,218,627
In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when it is incurred.		(2,833,952)
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:		5,535,268
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	136,300,000	
Premium on issuance, net of amortization	1,642,853	
Discount on issuance, net of amortization	(103,764)	
Bond Anticipation Notes	25,000,000	
Discount on issuance, net of amortization	(100,000)	
Certificates of participation	52,039,680	
Discount on issuance, net of amortization	(108,057)	
Lease revenue bonds	3,575,000	
Discount on issuance, net of amortization	(6,998)	
Capital lease obligations	1,343,889	
Compensated absences - accumulated vacation	953,440	
Supplemental early retirement program	2,679,462	
Net OPEB obligation	<u>18,686,547</u>	
Total Long-Term Obligations		<u>(241,902,052)</u>
<b>Total Net Position - Governmental Activities</b>		<u><u>\$ 289,073,154</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, 2014

	<u>General Fund</u>	<u>Building Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>				
Local Control Funding Formula	\$ 132,074,030	\$ -	\$ 3,447,438	\$ 135,521,468
Federal sources	15,442,873	-	10,586,926	26,029,799
Other State sources	16,794,923	-	3,001,143	19,796,066
Other local sources	15,011,847	74,156	12,678,352	27,764,355
<b>Total Revenues</b>	<u>179,323,673</u>	<u>74,156</u>	<u>29,713,859</u>	<u>209,111,688</u>
<b>EXPENDITURES</b>				
Current				
Instruction	109,856,226	-	3,396,689	113,252,915
Instruction-related activities:				
Supervision of instruction	7,185,369	-	177,764	7,363,133
Instructional library, media and technology	1,336,809	-	-	1,336,809
School site administration	13,328,799	-	843,155	14,171,954
Pupil services:				
Home-to-school transportation	4,070,143	-	-	4,070,143
Food services	35,873	-	10,923,040	10,958,913
All other pupil services	11,121,454	-	36,731	11,158,185
Administration:				
Data processing	2,363,649	-	8,448	2,372,097
All other administration	8,600,283	-	808,729	9,409,012
Plant services	16,682,228	-	1,760,792	18,443,020
Facility acquisition and construction	486,966	14,633,977	1,723,427	16,844,370
Ancillary services	1,185,736	-	6,815	1,192,551
Community services	98,388	-	2,721	101,109
Other outgo	593,272	-	-	593,272
Debt service				
Principal	697,533	-	5,575,000	6,272,533
Interest and other	544,366	-	9,796,062	10,340,428
<b>Total Expenditures</b>	<u>178,187,094</u>	<u>14,633,977</u>	<u>35,059,373</u>	<u>227,880,444</u>
<b>Excess (Deficiency) of Revenues</b>				
<b>Over Expenditures</b>	<u>1,136,579</u>	<u>(14,559,821)</u>	<u>(5,345,514)</u>	<u>(18,768,756)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	1,502,778	-	4,654,970	6,157,748
Other sources	-	-	1,247,000	1,247,000
Transfers out	(4,574,537)	-	(457,576)	(5,032,113)
<b>Net Financing Sources (Uses)</b>	<u>(3,071,759)</u>	<u>-</u>	<u>5,444,394</u>	<u>2,372,635</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>(1,935,180)</u>	<u>(14,559,821)</u>	<u>98,880</u>	<u>(16,396,121)</u>
<b>Fund Balance - Beginning</b>	<u>37,466,535</u>	<u>27,323,891</u>	<u>29,660,958</u>	<u>94,451,384</u>
<b>Fund Balances - Ending</b>	<u>\$ 35,531,355</u>	<u>\$ 12,764,070</u>	<u>\$ 29,759,838</u>	<u>\$ 78,055,263</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, 2014**

---

<b>Total Net Change in Fund Balances - Governmental Funds</b>		\$ (16,396,121)
<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 life. This is the amount by which capital outlay exceeded depreciation in the period.		
Capital outlays	\$ 18,108,637	
Depreciation expense	<u>(15,375,653)</u>	
Net Expense Adjustment		2,732,984
Loss on disposal of capital assets is reported in the government-wide financial Statement of Net Position, but is not recorded in the governmental funds.		(1,745,240)
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 \$2,152,652. Vacation used was less than amounts earned by \$89,853.		2,062,799
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 \$2,492,223.		(2,492,223)
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		4,175,000
Certificates of participation		1,470,665
Lease revenue bonds		205,000
Capital lease obligations		2,477,775

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, 2014**

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Governmental funds report the effect of premiums and discounts 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	<u>(522)</u>	
Combined Adjustment		\$ (30,997)

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.

793,411

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.

799,465

**Change in Net Position of Governmental Activities**

\$ (5,947,482)

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

**HEMET UNIFIED SCHOOL DISTRICT**

**PROPRIETARY FUND  
STATEMENT OF NET POSITION  
JUNE 30, 2014**

	<u>Business-Type Activities Enterprise Fund</u>	<u>Governmental Activities Internal Service Fund</u>
	<u>Transportation</u>	<u>Service Fund</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Deposits and investments	\$ 53,934	\$ 11,479,112
Receivables	5,078,456	8,667
Due from other funds	40,283	112,584
<b>Total Assets</b>	<u>5,172,673</u>	<u>11,600,363</u>
<b>Noncurrent Assets</b>		
Capital assets	8,783,023	-
Less: accumulated depreciation	(4,408,361)	-
<b>Total Noncurrent Assets</b>	<u>4,374,662</u>	<u>-</u>
<b>Total Assets</b>	<u>\$ 9,547,335</u>	<u>\$ 11,600,363</u>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 428,427	\$ 206,451
Due to other funds	3,690,899	-
Claims liability	-	1,740,896
<b>Total Current Liabilities</b>	<u>4,119,326</u>	<u>1,947,347</u>
<b>Noncurrent Liabilities</b>		
Long-term claims liability	-	4,117,748
Capital lease	2,705,662	-
<b>Total Liabilities</b>	<u>6,824,988</u>	<u>6,065,095</u>
<b>NET POSITION</b>		
Invested in capital assets, net of related debt	1,669,000	-
Unrestricted	1,053,347	5,535,268
<b>Total Net Position</b>	<u>\$ 2,722,347</u>	<u>\$ 5,535,268</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, 2014**

	<u>Business-Type Activities Enterprise Funds</u>	<u>Governmental Activities</u>
	<u>Transportation</u>	<u>Internal Service Fund</u>
<b>OPERATING REVENUES</b>		
Charges to other funds and miscellaneous revenues	\$ 15,102,553	\$ 3,321,184
<b>OPERATING EXPENSES</b>		
Payroll costs	8,167,159	-
Professional and contract services	632,534	2,551,654
Supplies and materials	2,145,444	4,389
Facility rental	311,201	-
<b>Total Operating Expenses</b>	<u>11,256,338</u>	<u>2,556,043</u>
<b>Operating Gain</b>	<u>3,846,215</u>	<u>765,141</u>
<b>NONOPERATING REVENUES</b>		
Interest income	<u>1,767</u>	<u>34,324</u>
<b>Income Before Transfers</b>	3,847,982	799,465
Transfers out	<u>(1,125,635)</u>	<u>-</u>
<b>Change in Net Position</b>	2,722,347	799,465
<b>Total Net Position - Beginning</b>	-	4,735,803
<b>Total Net Position - Ending</b>	<u>\$ 2,722,347</u>	<u>\$ 5,535,268</u>

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

**HEMET UNIFIED SCHOOL DISTRICT**

**FIDUCIARY FUNDS  
STATEMENT OF NET POSITION  
JUNE 30, 2014**

	<b>Business-Type Activities Enterprise Funds</b>	<b>Governmental Activities</b>
	<b>Transportation</b>	<b>Internal Service Fund</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash receipts from customers	\$ 15,104,320	\$ 3,210,463
Cash received from assessments made to other funds	(40,283)	-
Cash payments to employees for services	(8,167,159)	-
Other operating cash receipts	6,153,126	-
Cash payments to suppliers for goods and services	(3,089,179)	(4,389)
Other operating cash payments	-	(2,224,039)
Net Cash Provided by Operating Activities	<u>9,960,825</u>	<u>982,035</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Transfers to other funds	<u>(1,125,635)</u>	-
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of capital assets	<u>(8,783,023)</u>	-
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on investments	<u>1,767</u>	<u>33,609</u>
Net Increase in Cash and Cash Equivalents	53,934	1,015,644
Cash and Cash Equivalents - Beginning	-	10,463,468
Cash and Cash Equivalents - Ending	<u>\$ 53,934</u>	<u>\$ 11,479,112</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Operating income	\$ 3,846,215	\$ 765,141
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	4,408,361	-
Changes in assets and liabilities:		
Receivables	(5,078,456)	-
Due from other funds	(40,283)	(110,721)
Accounts payable	428,427	195,334
Due to other funds	3,690,899	(57,084)
Capital leases	2,705,662	
Claims liabilities	-	189,365
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 9,960,825</u>	<u>\$ 982,035</u>

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

**HEMET UNIFIED SCHOOL DISTRICT**

**FIDUCIARY FUNDS  
STATEMENT OF NET POSITION  
JUNE 30, 2014**

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	<b>Agency Funds</b>		
	<b>Debt Service Fund for Special Tax Bonds</b>	<b>Associated Student Body</b>	<b>Total Agency Funds</b>
<b>ASSETS</b>			
Deposits and investments	\$ 5,055,114	\$ 1,100,227	\$ 6,155,341
Stores inventories	-	2,130	2,130
<b>Total Assets</b>	<u>\$ 5,055,114</u>	<u>\$ 1,102,357</u>	<u>\$ 6,157,471</u>
<b>LIABILITIES</b>			
Due to student groups	\$ -	\$ 1,102,357	\$ 1,102,357
Due to bond holders	5,055,114	-	5,055,114
<b>Total Liabilities</b>	<u>\$ 5,055,114</u>	<u>\$ 1,102,357</u>	<u>\$ 6,157,471</u>

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



# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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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.

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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**Charter School** The District has approved a Charter for the College Prep High 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.

### 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 17, Special Reserve Fund for Other Than Capital Outlay Projects and 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.

As a result, the General Fund reflects an increase in the fund balance of \$5,103,953.

**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.

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

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### 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.

**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).

**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, 2014

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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:

**Enterprise Funds** Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. These funds of the District account for the financial transactions related to the Transportation activities of the District.

**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.

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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

Net position should be reported as restricted when constraints placed on net position 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.

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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**Revenues - Exchange and Non-Exchange Transactions** Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. Generally, available is defined as collectible within 60 days. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to state-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

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

**Unearned Revenue** Unearned 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 unearned revenue is removed from the combined balance sheet and revenue is recognized.

Certain grants received that have not met eligibility requirements are recorded as unearned revenue. On the governmental fund financial statements, receivables that will not be collected within the available period are also recorded as unearned 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, 2014, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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### Stores Inventories

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

### Capital Assets and Depreciation

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

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

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

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### Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide and proprietary fund financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases, and long-term loans are recognized as liabilities in the governmental fund financial statements when due.

### Debt 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*. Debt premiums and discounts, as well as issuance costs, related to prepaid insurance costs are amortized over the life of the bonds using the straight line method.

### Current Loans

Current loans consist of amounts outstanding at June 30, 2014, 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, 2014, 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.



# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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### Spending Order Policy

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

### Minimum Fund Balance Policy

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, 2014. 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 \$23,626,236 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.

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

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### **Estimates**

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

### **Budgetary Data**

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

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

### **Property Tax**

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

### **Changes in Accounting Principles**

In March 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.

## HEMET UNIFIED SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

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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 No. 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 District has implemented the provisions of this Statement for the year ended June 30, 2014.

As the result of implementing GASB Statement No. 65, the District has restated the beginning net position in the government-wide Statement of Net Position, effectively decreasing net position as of July 1, 2013, by \$2,898,598. The decrease results from no longer deferring and amortizing bond issuance costs.

#### **New Accounting Pronouncements**

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 No. 27 and No. 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, 2014

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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.

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date — An Amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a State or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

## HEMET UNIFIED SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2014**

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Statement No. 68 requires a State or local government employer (or nonemployer contributing entity in a special funding situation) to recognize a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. If a State or local government employer or nonemployer contributing entity makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government's reporting period, Statement No. 68 requires that the government recognize its contribution as a deferred outflow of resources. In addition, Statement No. 68 requires recognition of deferred outflows of resources and deferred inflows of resources for changes in the net pension liability of a State or local government employer or nonemployer contributing entity that arise from other types of events. At transition to Statement No. 68, if it is not practical for an employer or nonemployer contributing entity to determine the amounts of *all* deferred outflows of resources and deferred inflows of resources related to pensions, paragraph 137 of Statement No. 68 required that beginning balances for deferred outflows of resources and deferred inflows of resources not be reported.

Consequently, if it is not practical to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, contributions made after the measurement date of the beginning net pension liability could not have been reported as deferred outflows of resources at transition. This could have resulted in a significant understatement of an employer or nonemployer contributing entity's beginning net position and expense in the initial period of implementation.

This Statement amends paragraph 137 of Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement No. 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts.

The provisions of this Statement are required to be applied simultaneously with the provisions of Statement No. 68.

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

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### NOTE 2 - DEPOSITS AND INVESTMENTS

#### Summary of Deposits and Investments

Deposits and investments as of June 30, 2014, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 65,423,201
Business-type activities	53,934
Fiduciary funds	<u>6,155,341</u>
Total Deposits and Investments	<u><u>\$ 71,632,476</u></u>

Deposits and investments as of June 30, 2014, consisted of the following:

Cash on hand and in banks	\$ 5,253,326
Cash in revolving	25,000
Investments	<u>66,354,150</u>
Total Deposits and Investments	<u><u>\$ 71,632,476</u></u>

#### Policies and Practices

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

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

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

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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 does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing 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, 2014**

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	\$ 1,714,752	3/9/2018
Certificates of Deposit	3,256,595	9/26/2014
Riverside County Investment Pool	52,071,452	500*
Federal Home Loan Mortgage Corp. - MTN	1,714,752	3/9/2018
Federal National Mortgage Association - MTN	1,380,357	3/16/2015
Money Market Mutual Funds	5,435,333	7/1/2014
Private Export Funding Note	1,063,580	11/15/2015
Total	<u>\$ 66,636,821</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, 2014	Fair Value
Federal Home Loan Banks	AA	AAA	\$ 1,714,752
Certificates of Deposit	AA	AAA	3,256,595
Riverside County Investment Pool	Not Required	AAA/V1	52,071,452
Federal Home Loan Mortgage Corp. - MTN	AA	AAA	1,714,752
Federal National Mortgage Association - MTN	AA	AAA	1,380,357
Money Market Mutual Funds	Not Required	Not Required	5,435,333
Private Export Funding Note	AA	AAA	1,063,580
Total			<u>\$ 66,636,821</u>



**HEMET UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**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, 2014, the District's bank balance was not exposed to custodial credit risk.

**NOTE 3 - RECEIVABLES**

Receivables at June 30, 2014, 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 Governmental Activities	Transportation Enterprise Fund
Federal Government						
Categorical aid	\$ 4,575,993	\$ -	\$ 1,122,551	\$ -	\$ 5,698,544	\$ -
State Government						
State principle apportionment	33,959,531	-	1,035,156	-	34,994,687	-
Categorical aid	810,789	-	183,382	-	994,171	-
Lottery	658,949	-	39,176	-	698,125	-
Local Government						
Interest	11,297	13,121	5,382	8,667	38,467	1,763
Other local sources	240,060	-	23,281	-	263,341	5,076,693
Master Plan - Charter Schools	2,050,181	-	82,796	-	2,132,977	-
Total	<u>\$42,306,800</u>	<u>\$ 13,121</u>	<u>\$ 2,491,724</u>	<u>\$ 8,667</u>	<u>\$44,820,312</u>	<u>\$ 5,078,456</u>

**HEMET UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2014, was as follows:

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
<b>Governmental Activities</b>				
Capital Assets Not Being Depreciated				
Land	\$ 24,701,180	\$ -	\$ -	\$ 24,701,180
Construction in progress	9,443,967	15,165,086	424,166	24,184,887
Total Capital Assets Not Being Depreciated	<u>34,145,147</u>	<u>15,165,086</u>	<u>424,166</u>	<u>48,886,067</u>
Capital Assets Being Depreciated				
Buildings and improvements	513,273,452	1,773,074	-	515,046,526
Furniture and equipment	23,407,389	1,594,643	6,565,235	18,436,797
Total Capital Assets Being Depreciated	<u>536,680,841</u>	<u>3,367,717</u>	<u>6,565,235</u>	<u>533,483,323</u>
Total Capital Assets	<u>570,825,988</u>	<u>18,532,803</u>	<u>6,989,401</u>	<u>582,369,390</u>
Less Accumulated Depreciation				
Buildings and improvements	107,297,241	13,675,448	-	120,972,689
Furniture and equipment	14,297,864	1,700,205	4,819,995	11,178,074
Total Accumulated Depreciation	<u>121,595,105</u>	<u>15,375,653</u>	<u>4,819,995</u>	<u>132,150,763</u>
Governmental Activities Capital Assets, Net	<u>\$ 449,230,883</u>	<u>\$ 3,157,150</u>	<u>\$ 2,169,406</u>	<u>\$ 450,218,627</u>
<b>Business-Type Activities</b>				
Furniture and equipment	\$ -	\$ 8,783,023	\$ -	\$ 8,783,023
Less Accumulated Depreciation	-	4,408,361	-	4,408,361
Business-Type Activities Capital Assets, Net	<u>\$ -</u>	<u>\$ 4,374,662</u>	<u>\$ -</u>	<u>\$ 4,374,662</u>

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

<b>Governmental Activities</b>		
Instruction		\$ 12,700,268
School site administration		415,144
Food services		722,655
All other administration		907,163
Plant services		630,423
Total Depreciation Expenses Governmental Activities		<u>\$ 15,375,653</u>
<b>Business-Type Activities</b>		
Home-to-school transportation		4,408,361
Total Depreciation Expenses All Activities		<u>\$ 19,784,014</u>

**HEMET UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE 5 - INTERFUND TRANSACTIONS**

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

Interfund receivable and payable balances at June 30, 2014, 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	Transportation Enterprise Fund	
General Fund	\$ -	\$ 4,762	\$ 437,937	\$ 3,690,899	\$ 4,133,598
Non-Major Governmental Funds	581,526	-	-	-	581,526
Transportation Enterprise Fund	40,283	-	-	-	40,283
Internal Service Fund	112,344	-	240	-	112,584
Total	<u>\$ 734,153</u>	<u>\$ 4,762</u>	<u>\$ 438,177</u>	<u>\$ 3,690,899</u>	<u>\$ 4,867,991</u>

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

A balance of \$50,000 is due to the General Fund from the Charter School Non-Major Governmental Fund for temporary loan.

A balance of \$1,125,635 is due to the General Fund from the Transportation Enterprise Fund for transportation administrative fees.

A balance of \$2,223,382 is due to the General Fund from the Transportation Enterprise Fund for transportation expenses.

A balance of \$244,208 is due to the Special Reserve Non-Major Governmental Fund for Capital Outlay Projects from the General Fund for Proposition 39 Clean Energy funds.

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, 2014**

**Operating Transfers**

Interfund transfers for the year ended June 30, 2014, consisted of the following:

Transfer To	Transfer From			Total
	General Fund	Non-Major Governmental Funds	Transportation Enterprise Fund	
General Fund	\$ -	\$ 377,143	\$ 1,125,635	\$ 1,502,778
Non-Major Governmental Funds	4,574,537	80,433	-	4,654,970
Total	<u>\$ 4,574,537</u>	<u>\$ 457,576</u>	<u>\$ 1,125,635</u>	<u>\$ 6,157,748</u>

The General Fund transferred to the Charter School Non-Major Governmental Fund for Board award to principal.	\$	500
The General Fund transferred to the Adult Education Non-Major Governmental Fund for close out of the fund.		100
The General Fund transferred to the Debt Service Non-Major Governmental Fund for Blended Component Units for debt service payments.		3,787,392
The Cafeteria Non-Major Governmental Fund transferred to the Debt Service Non-Major Governmental Fund for Blended Component Units for debt service payments.		80,433
The Transportation Enterprise Fund transferred to the General Fund to move all non Hemet USD transportation activities.		1,125,635
The General Fund transferred to the Deferred Maintenance Non-Major Governmental Fund for maintenance projects.		710,000
The General Fund transferred to the Child Development Non-Major Governmental Fund for contribution to cover salary and other costs in excess of preschool reimbursements.		76,545
The Charter School Non-Major Governmental Fund transferred to the General Fund for transportation and special education encroachment.		<u>377,143</u>
Total	<u>\$</u>	<u>6,157,748</u>

**HEMET UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**NOTE 6 - ACCOUNTS PAYABLE**

Accounts payable at June 30, 2014, consisted of the following:

	General Fund	Building Fund	Non-Major Governmental Funds	Internal Service Fund	Total Governmental Activities	Transportation Enterprise Fund
Vendor payables	\$ 2,697,679	\$ 12,303	\$ 241,521	\$ 206,451	\$ 3,157,954	\$ 428,427
State principle apportionment	19,580,533	-	803,669	-	20,384,202	-
Salaries and benefits	65,710	-	1,248	-	66,958	-
Construction	82,534	1,173,661	286,420	-	1,542,615	-
Claims liability	-	-	-	1,740,896	1,740,896	-
Total	<u>\$ 22,426,456</u>	<u>\$ 1,185,964</u>	<u>\$ 1,332,858</u>	<u>\$ 1,947,347</u>	<u>\$ 26,892,625</u>	<u>\$ 428,427</u>

**NOTE 7 - UNEARNED REVENUE**

Unearned revenue at June 30, 2014, consisted of the following:

	General Fund	Non-Major Governmental Funds	Total
Federal financial assistance	\$ 12,009	\$ -	\$ 12,009
Other local	-	24,111	24,111
Total	<u>\$ 12,009</u>	<u>\$ 24,111</u>	<u>\$ 36,120</u>

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

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. By October 2013, the District placed 100 percent of principal and interest in an irrevocable trust for the sole purpose of satisfying the notes.

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

Issue Date	Rate	Maturity Date	Outstanding July 1, 2013	Additions	Payments	Outstanding June 30, 2014
2/27/2013	2.00%	10/1/2013	<u>\$ 18,640,000</u>	<u>\$ -</u>	<u>\$ 18,640,000</u>	<u>\$ -</u>

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

### NOTE 9 - LONG-TERM OBLIGATIONS

#### Summary

A schedule of changes in long-term obligations for the year ended June 30, 2014, is shown below:

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014	Due in One Year
<b>Governmental Activities</b>					
General Obligation Bonds	\$140,475,000	\$ -	\$ 4,175,000	\$ 136,300,000	\$ 4,360,000
Premium on issuance	1,724,541	-	81,688	1,642,853	-
Discount on issuance	(110,682)	-	(6,918)	(103,764)	-
Bond Anticipation Notes	25,000,000	-	-	25,000,000	-
Discount on issuance	(200,000)	-	(100,000)	(100,000)	-
Certificates of Participation	53,510,345	-	1,470,665	52,039,680	1,535,665
Discount on issuance	(113,302)	-	(5,245)	(108,057)	-
Lease Revenue Bonds	3,780,000	-	205,000	3,575,000	215,000
Discount on issuance	(7,520)	-	(522)	(6,998)	-
Capital Leases	3,821,664	-	2,477,775	1,343,889	397,629
Accumulated Vacation - net	863,587	89,853	-	953,440	-
Supplemental Early Retirement Program	4,832,114	-	2,152,652	2,679,462	1,404,578
Long Term Claims Liability	3,895,031	222,717	-	4,117,748	-
Net OPEB Obligation	16,194,324	4,823,578	2,331,355	18,686,547	-
<b>Total Governmental Activities</b>	<u>\$ 253,665,102</u>	<u>\$ 5,136,148</u>	<u>\$ 12,781,450</u>	<u>\$ 246,019,800</u>	<u>\$ 7,912,872</u>
<b>Business-Type Activities</b>					
Capital Leases	<u>\$ -</u>	<u>\$ 3,536,920</u>	<u>\$ 831,258</u>	<u>\$ 2,705,662</u>	<u>\$ 815,326</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, Capital Facilities Fund, and the Transportation Fund.
- The Accumulated Vacation will be paid by the fund for which the employee worked.
- Payments for Supplemental Early Retirement obligations are made by the General Fund.
- Payments for the OPEB obligation will be paid by the fund for which the employee worked.

**HEMET UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**General Obligation Bonds Summary**

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds
				Outstanding July 1, 2013	Issued	Redeemed	Outstanding June 30, 2014
6/4/03	8/1/27	2.75% - 5.50%	\$ 15,000,000	\$ 535,000	\$ -	\$ 535,000	\$ -
5/26/04	8/1/28	4.00% - 5.00%	10,000,000	340,000	-	340,000	-
5/18/05	8/1/29	3.50% - 5.00%	6,000,000	2,760,000	-	205,000	2,555,000
1/17/06	8/1/30	4.00% - 6.50%	6,000,000	5,120,000	-	190,000	4,930,000
3/1/07	8/1/37	4.00% - 5.75%	60,000,000	55,630,000	-	1,220,000	54,410,000
3/4/08	8/1/38	4.50% - 5.25%	40,000,000	37,605,000	-	685,000	36,920,000
7/28/10	8/1/26	4.00% - 4.50%	18,740,000	17,225,000	-	820,000	16,405,000
7/18/12	8/1/28	2.00% - 4.00%	21,260,000	21,260,000	-	180,000	21,080,000
			<u>\$ 177,000,000</u>	<u>\$ 140,475,000</u>	<u>\$ -</u>	<u>\$ 4,175,000</u>	<u>\$ 136,300,000</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, 2014, the principal balance outstanding was \$2,555,000 and unamortized premium was \$43,032.

The bonds mature through 2030 as follows:

Fiscal Year	Principal	Interest	Total
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	-	92,369	92,369
2020-2024	-	461,844	461,844
2025-2029	1,740,000	280,703	2,020,703
2030	390,000	8,531	398,531
Total	<u>\$ 2,555,000</u>	<u>\$ 1,230,223</u>	<u>\$ 3,785,223</u>

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

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### 2002 General Obligation Bonds, Series E

In January 2006, the District issued \$6,000,000 of the 2002 General Obligation Bonds, Series E. The bonds mature on August 1, 2030, with interest yields ranging from 4.00 to 6.50 percent. The proceeds from the sale of the bonds will be used to finance the acquisition and construction of new schools, classrooms, and facilities, and to repair existing schools. At June 30, 2014, the principal balance outstanding was \$4,930,000 and unamortized premium was \$62,511.

The bonds mature through 2031 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	235,000	166,800	401,800
2020-2024	1,355,000	679,281	2,034,281
2025-2029	1,700,000	361,266	2,061,266
2030-2031	790,000	35,000	825,000
Total	<u>\$ 4,930,000</u>	<u>\$ 1,998,347</u>	<u>\$ 6,928,347</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, 2014, the principal balance outstanding was \$54,410,000 and unamortized premium was \$794,514.

The bonds mature through 2038 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	1,610,000	2,121,184	3,731,184
2020-2024	9,075,000	9,422,920	18,497,920
2025-2029	11,170,000	7,130,086	18,300,086
2030-2034	13,715,000	4,495,269	18,210,269
2035-2038	13,150,000	1,213,873	14,363,873
Total	<u>\$ 54,410,000</u>	<u>\$ 33,531,514</u>	<u>\$ 87,941,514</u>



# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

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### 2006 General Obligation Bonds, Series B

In March 2008, the District issued \$40,000,000 of the 2006 General Obligation Bonds, Series B. The bonds mature on August 1, 2038, with interest yields ranging from 4.50 to 5.25 percent. The proceeds from the sale of the bonds will be used to finance the acquisition and construction of new schools, classrooms, and facilities, and to repair existing schools. At June 30, 2014, the principal balance outstanding was \$36,920,000 and unamortized premium was \$524,675.

The bonds mature through 2039 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	895,000	1,689,194	2,584,194
2020-2024	5,270,000	7,694,538	12,964,538
2025-2029	6,880,000	6,167,200	13,047,200
2030-2034	8,990,000	4,190,097	13,180,097
2035-2039	11,755,000	1,556,259	13,311,259
Total	<u>\$ 36,920,000</u>	<u>\$ 28,473,213</u>	<u>\$ 65,393,213</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, 2014, the principal balance outstanding was \$16,405,000 and unamortized premium was \$218,121.

The bonds mature through 2027 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	1,170,000	484,413	1,654,413
2020-2024	6,610,000	1,686,190	8,296,190
2025-2027	4,640,000	313,232	4,953,232
Total	<u>\$ 16,405,000</u>	<u>\$ 4,834,462</u>	<u>\$ 21,239,462</u>

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

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### 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, 2014, the principal balance outstanding was \$21,080,000 and unamortized discount was \$103,764.

The bonds mature through 2029 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	1,450,000	456,375	1,906,375
2020-2024	7,980,000	1,638,006	9,618,006
2025-2029	6,700,000	531,194	7,231,194
Total	<u>\$ 21,080,000</u>	<u>\$ 4,837,875</u>	<u>\$ 25,917,875</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, 2014, was \$25,000,000 and unamortized discount was \$100,000.

The bonds mature through 2016 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ -	\$ 1,343,750	\$ 1,343,750
2016	25,000,000	671,875	25,671,875
Total	<u>\$ 25,000,000</u>	<u>\$ 2,015,625</u>	<u>\$ 27,015,625</u>

**HEMET UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**Certificates of Participation Summary**

The outstanding certificates of participation are as follows:

Issue Date	Maturity Date	Original Issue	COP		COP	
			Outstanding July 1, 2013	Issued	Redeemed	Outstanding June 30, 2014
10/14/04	10/01/32	\$ 23,425,000	\$ 18,255,000	\$ -	\$ 760,000	\$ 17,495,000
12/13/05	12/27/20	5,000,000	3,070,345	-	275,665	2,794,680
06/13/06	10/01/36	29,445,000	28,650,000	-	435,000	28,215,000
11/21/07	10/01/36	4,610,000	3,535,000	-	-	3,535,000
		<u>\$ 62,480,000</u>	<u>\$ 53,510,345</u>	<u>\$ -</u>	<u>\$ 1,470,665</u>	<u>\$ 52,039,680</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, 2014, the principal balance outstanding was \$17,495,000 and unamortized discount was \$33,032.

The certificates mature through 2033 as follows:

Fiscal Year	Principal	Interest to	
		Maturity	Total
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	905,000	623,606	1,528,606
2020-2024	5,175,000	2,473,134	7,648,134
2025-2029	6,370,000	1,181,525	7,551,525
2030-2033	1,745,000	105,103	1,850,103
Total	<u>\$ 17,495,000</u>	<u>\$ 7,232,806</u>	<u>\$ 24,727,806</u>

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

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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, 2014, US Bank held \$2,461,524 for payment of principal.

The certificates mature through 2021 as follows:

Year Ending June 30,	District Payment	Expected Earned Interest	Total
2015	\$ 275,665	\$ 60,872	\$ 336,537
2016	275,665	77,973	353,638
2017	275,665	87,379	363,044
2018	275,665	97,033	372,698
2019	275,665	106,934	382,599
2020-2021	551,330	178,640	729,970
Total	<u>\$ 1,929,655</u>	<u>\$ 608,831</u>	<u>\$ 2,538,486</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, 2014, the principal balance outstanding was \$28,215,000.

**HEMET UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

The certificates mature through 2037 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
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	745,000	1,135,137	1,880,137
2020-2024	4,545,000	5,118,139	9,663,139
2025-2029	6,320,000	3,921,110	10,241,110
2030-2034	11,860,000	1,776,921	13,636,921
2035-2037	2,495,000	169,494	2,664,494
Total	<u>\$ 28,215,000</u>	<u>\$ 16,942,958</u>	<u>\$ 45,157,958</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, 2014, the principal balance outstanding was \$3,535,000 and unamortized discount was \$75,025.

The certificates mature through 2037 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2015	\$ -	\$ 159,075	\$ 159,075
2016	-	159,075	159,075
2017	-	159,075	159,075
2018	-	159,075	159,075
2019	-	159,075	159,075
2020-2024	-	795,375	795,375
2025-2029	300,000	778,725	1,078,725
2030-2034	1,380,000	592,200	1,972,200
2035-2037	1,855,000	152,663	2,007,663
Total	<u>\$ 3,535,000</u>	<u>\$ 3,114,338</u>	<u>\$ 6,649,338</u>

**HEMET UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**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, 2014, the principal balance of \$3,575,000 remains outstanding and unamortized discount was \$6,998.

The bonds mature through 2027 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
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	250,000	117,763	367,763
2020-2024	1,410,000	417,344	1,827,344
2025-2027	1,010,000	92,025	1,102,025
Total	<u>\$ 3,575,000</u>	<u>\$ 1,189,936</u>	<u>\$ 4,764,936</u>

**Capital Leases – Governmental Activities**

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, 2013	\$ 2,274,809	\$ 1,923,427	\$ 4,198,236
Payments	2,251,081	454,493	2,705,574
Balance, June 30, 2014	<u>\$ 23,728</u>	<u>\$ 1,468,934</u>	<u>\$ 1,492,662</u>

## HEMET UNIFIED SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

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The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2015	\$ 462,220
2016	424,493
2017	412,493
2018	96,728
2019	96,728
Total	<u>1,492,662</u>
Less: Amount Representing Interest	148,773
Present Value of Minimum Lease Payments	<u>\$ 1,343,889</u>

#### Capital Leases – Business-Type Activities

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

	Buses
Balance, July 1, 2013	\$ -
Additions	3,968,597
Payments	<u>1,098,353</u>
Balance, June 30, 2014	<u>\$ 2,870,244</u>

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2015	\$ 887,869
2016	827,126
2017	677,382
2018	477,867
Total	<u>2,870,244</u>
Less: Amount Representing Interest	164,582
Present Value of Minimum Lease Payments	<u>\$ 2,705,662</u>

#### Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2014, amounted to \$953,440.

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

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### 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, 2014, is \$2,679,462.

Future payments are as follows:

Year Ending June 30,	Amount
2015	1,439,638
2016	672,502
2017	672,502
Total	<u>2,784,642</u>
Less: Amount Representing Interest	105,180
Total	<u><u>\$ 2,679,462</u></u>

### Claims Liability

The District has an outstanding long-term liability for claims for the District's Workers' Compensation Insurance Program in the amount of \$4,117,748.

### Other Postemployment Benefit (OPEB) Obligation

The District's annual required contribution for the year ended June 30, 2014, was \$4,175,805, and contributions made by the District during the year were \$1,597,551. Interest on the net OPEB obligation and adjustments to the annual required contribution were \$647,773 and \$(733,804), respectively, which resulted in an increase to the net OPEB obligation of \$2,492,223. As of June 30, 2014, the net OPEB obligation was \$18,686,547. See Note 12 for additional information regarding the OPEB obligation and the postemployment benefits plan.

### NOTE 10 - NON-OBLIGATORY DEBT

Non-obligatory debt relates to debt issuances by the Community Facility Districts, as authorized by the Mello-Roos Community Facilities Act of 1982 as amended, and the Mark-Roos Local Bond Pooling Act of 1985, and are payable from special taxes levied on property within the Community Facilities Districts according to a methodology approved by the voters within the District. Neither the faith and credit nor taxing power of the District is pledged to the payment of the bonds. Reserves have been established from the bond proceeds to meet delinquencies should they occur. If delinquencies occur beyond the amounts held in those reserves, the District has no duty to pay the delinquency out of any available funds of the District. The District acts solely as an agent for those paying taxes levied and the bondholders, and may initiate foreclosure proceedings. Special assessment debt of \$35,385,000 as of June 30, 2014, 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, 2014

### 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	271,906	-	470,989	742,895
Total Nonspendable	<u>296,906</u>	<u>-</u>	<u>470,989</u>	<u>767,895</u>
<b>Restricted</b>				
Legally restricted programs	4,534,590	-	5,424,734	9,959,324
Capital projects	-	12,764,070	7,505,706	20,269,776
Debt services	-	-	13,941,461	13,941,461
Total Restricted	<u>4,534,590</u>	<u>12,764,070</u>	<u>26,871,901</u>	<u>44,170,561</u>
<b>Committed</b>				
Deferred maintenance program	-	-	846,933	846,933
OPEB Reserves	1,503,919	-	-	1,503,919
Total Committed	<u>1,503,919</u>	<u>-</u>	<u>846,933</u>	<u>2,350,852</u>
<b>Assigned</b>				
Site discretionary carryover	855,990	-	-	855,990
Adult Education	9,193	-	-	9,193
Business summit	898,811	-	-	898,811
Health and Welfare	519,035	-	-	519,035
Equipment replacement	410,718	-	-	410,718
Medi-cal administrative activities	26,101	-	-	26,101
Erate / IT projects	350,000	-	-	350,000
Site donations	333,454	-	-	333,454
ROTC program	15,223	-	-	15,223
Transportation contracts	106,310	-	-	106,310
MYP deficits	21,934	-	-	21,934
Site lottery carryover	847,601	-	-	847,601
Postemployment Benefits	11,836,054	-	-	11,836,054
HAAAT Unrestricted	255,482	-	-	255,482
HAAAT Donations	-	-	47,774	47,774
HAAAT Lottery	-	-	3,104	3,104
WCA Unrestricted	-	-	1,142,021	1,142,021
WCA Donations	-	-	41,372	41,372
WCA Lottery	-	-	5,751	5,751
HUSSC	-	-	52,179	52,179
Other assignments	3,600,034	-	277,814	3,877,848
Total Assigned	<u>20,085,940</u>	<u>-</u>	<u>1,570,015</u>	<u>21,655,955</u>
<b>Unassigned</b>				
Economic uncertainties	9,110,000	-	-	9,110,000
Total	<u>\$ 35,531,355</u>	<u>\$ 12,764,070</u>	<u>\$ 29,759,838</u>	<u>\$ 78,055,263</u>

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

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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 156 retirees and beneficiaries currently receiving benefits and 2,014 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 2013-2014, the District contributed \$1,597,551 to the Plan, of which \$632,367 was used for current premiums, and \$965,184 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	647,773
Adjustment to annual required contribution	<u>(733,804)</u>
Annual OPEB cost (expense)	4,089,774
Contributions made	<u>(1,597,551)</u>
Increase in net OPEB obligation	2,492,223
Net OPEB obligation, beginning of year	<u>16,194,324</u>
Net OPEB obligation, end of year	<u>\$ 18,686,547</u>

**HEMET UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

**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
2012	\$ 4,195,297	\$ 1,425,813	33.99%	\$ 13,441,622
2013	4,104,392	1,351,690	32.93%	16,194,324
2014	4,089,774	1,597,551	39.06%	18,686,547

**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.

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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### 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.

### 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.

**HEMET UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

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**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, 2012 to June 30, 2014:

	Health Care	Workers' Compensation	Total
Liability Balance, July 1, 2012	\$ 68,000	\$ 5,661,682	\$ 5,729,682
Claims provision	2,156,574	1,437,333	3,593,907
Claims paid	(2,156,574)	(1,497,736)	(3,654,310)
Liability Balance, June 30, 2013	68,000	5,601,279	5,669,279
Claims provision	634,367	2,106,028	2,740,395
Claims paid	(632,367)	(1,918,663)	(2,551,030)
Liability Balance, June 30, 2014	<u>\$ 70,000</u>	<u>\$ 5,788,644</u>	<u>\$ 5,858,644</u>
Amount available to pay claims	<u>\$ 1,123,687</u>	<u>\$ 10,476,676</u>	<u>\$ 11,600,363</u>

**NOTE 14 - EMPLOYEE RETIREMENT SYSTEMS**

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

**CalSTRS**

**Plan Description**

The District contributes to CalSTRS; a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits and survivor benefits to beneficiaries. As a result of the Public Employee Pension Reform Act of 2013 (PEPRA), changes have been made to the defined benefit pension plan effective January 1, 2013. 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.

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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### Funding Policy

Due to the implementation of the Public Employee Pension Reform Act of 2013 (PEPRA), new members must pay at least 50 percent of the normal costs of the plan, which can fluctuate from year to year. For 2013-2014, the required contribution rate for new members is 8.0 percent. "Classic" plan members are also required to contribute 8.0 percent of their salary. 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 2013-2014 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, 2014, 2013, and 2012, were \$6,767,727, \$6,419,936, and \$6,504,838, 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. As a result of the Public Employee Pension Reform Act of 2013 (PEPRA), changes have been made to the defined benefit pension plan effective January 1, 2013. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95811.

#### Funding Policy

As a result of the implementation of the Public Employee Pension Reform Act of 2013 (PEPRA), new members must pay at least 50 percent of the normal costs of the plan, which can fluctuate from year to year. For 2013-2014, the normal cost is 11.85 percent, which rounds to a 6.0 percent contribution rate. "Classic" plan members continue to contribute 7.0 percent. 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 2013-2014 was 11.442 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, 2014, 2013, and 2012, were \$4,245,041, \$3,599,796, and \$3,396,752, 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.

# HEMET UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

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### 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 \$4,181,629 (5.541 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, 2014. 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, 2014.

#### 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, 2014.

#### Construction Commitments

As of June 30, 2014, the District had the following commitments with respect to the unfinished capital projects:

Capital Projects	Remaining Construction Commitments	Expected Date of Completion
Hemet El. - Reconstruction	\$ 25,000,000	6/30/16
Acacia Modernization	1,500,000	6/30/15
Hemet HS - Phase 3	3,000,000	ON HOLD
	\$ 29,500,000	

**HEMET UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

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**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, 2014, the District made payments of \$748,925 to SoCal ReLiEF, for services received.

**NOTE 17 - RESTATEMENT OF PRIOR YEAR NET POSITION**

The District adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, in the current year. As a result, the effect on the current fiscal year is as follows:

**Statement of Net Position**

Net Position - Beginning	\$ 297,919,234
Restatement/cost of issuance	<u>(2,898,598)</u>
Net Position - Beginning as Restated	<u><u>\$ 295,020,636</u></u>



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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, 2014**

	<b>Budgeted Amounts</b>		<b>Actual (GAAP Basis)</b>	<b>Variances - Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		<b>Final to Actual</b>
<b>REVENUES</b>				
Local Control Funding Formula	\$ 112,026,416	\$ 132,890,380	\$ 132,074,030	\$ (816,350)
Federal sources	15,599,441	15,336,420	15,442,873	106,453
Other State sources	22,696,184	12,551,516	16,794,923	4,243,407
Other local sources	25,049,726	13,922,219	15,011,847	1,089,628
<b>Total Revenues <sup>1</sup></b>	<b>175,371,767</b>	<b>174,700,535</b>	<b>179,323,673</b>	<b>4,623,138</b>
<b>EXPENDITURES</b>				
Current				
Certificated salaries	80,674,333	81,124,452	81,622,055	(497,603)
Classified salaries	33,984,584	30,142,903	30,646,286	(503,383)
Employee benefits	36,731,017	32,719,295	36,966,646	(4,247,351)
Books and supplies	9,608,414	9,302,446	9,107,703	194,743
Services and operating expenditures	17,299,414	18,062,814	17,819,525	243,289
Capital outlay	145,713	749,639	1,267,611	(517,972)
Other outgo	(622,988)	(643,100)	(484,631)	(158,469)
Debt service				
Principal	2,146,274	2,048,188	697,533	1,350,655
Interest	2,502,304	2,284,923	544,366	1,740,557
<b>Total Expenditures <sup>1</sup></b>	<b>182,469,065</b>	<b>175,791,560</b>	<b>178,187,094</b>	<b>(2,395,534)</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(7,097,298)</b>	<b>(1,091,025)</b>	<b>1,136,579</b>	<b>2,227,604</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	377,236	375,027	1,502,778	1,127,751
Transfers out	68,531	(4,484,288)	(4,574,537)	(90,249)
<b>Net Financing Sources (Uses)</b>	<b>445,767</b>	<b>(4,109,261)</b>	<b>(3,071,759)</b>	<b>1,037,502</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(6,651,531)</b>	<b>(5,200,286)</b>	<b>(1,935,180)</b>	<b>3,265,106</b>
<b>Fund Balance - Beginning</b>	<b>37,466,535</b>	<b>37,466,535</b>	<b>37,466,535</b>	<b>-</b>
<b>Fund Balance - Ending</b>	<b>\$ 30,815,004</b>	<b>\$ 32,266,249</b>	<b>\$ 35,531,355</b>	<b>\$ 3,265,106</b>

<sup>1</sup> On behalf payments of \$4,181,629 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, 2014**

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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, 2014**

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
Indian Education - Grants to Local Educational Agencies	84.060	10011	\$ 10,980
Carl D. Perkins Vocational and Technical Education Act of 1998 Secondary Education	84.048	14894	194,990
Passed through Riverside County Special Education Local Plan Area:			
Individuals with Disabilities Act (IDEA)			
Special Education (IDEA) Cluster:			
Basic Local Assistance Entitlement, Part B, Section 611 Local Assistance, Part B, Section 611, Private School ISPs	84.027	13379	4,340,205
Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.027	10115	5,677
Preschool Local Entitlement, Part B, Section 611 (Age 3-4-5)	84.173	13430	74,843
IDEA Mental Health Allocation Plan, Part B, Section 611	84.027A	13682	163,696
Preschool Staff Development, Part B, Section 619	84.027A	14468	156,210
	84.173A	13431	754
Total Special Education (IDEA) Cluster			<u>4,741,385</u>
Passed through Napa County Office of Education Local Plan Area:			
Special Education: Project Read	84.323	14913	9,580
Passed through California Department of Education (CDE): No Child Left Behind Act (NCLB):			
Title I, Part A, Basic Grants Low Income and Neglected	84.010	14981	6,487,356
Title II, Part A Cluster:			
Title II, Part A, Improving Teacher Quality Local Grants	84.367	14341	347,853
Title II, Part A, Administrator Training	84.367	14344	8,697
Total Title II, Part A Cluster			<u>356,550</u>
Title III Cluster:			
Title III, Limited English Proficient (LEP) Student Program	84.365	14346	482,077
Title III, Immigrant Education Program	84.365	15146	17,263
Title III Cluster			<u>499,340</u>

See accompanying note to supplementary information.

**HEMET UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)  
FOR THE YEAR ENDED JUNE 30, 2014**

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	\$ 154,107
Elementary and Secondary School Counseling Discretionary Grants	84.215E	[1]	436,429
ARRA - Investing in Innovation (i3) Fund	84.411	10130	374,454
Total U.S. Department of Education			<u>13,265,171</u>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Forest Reserve	10.665	10044	59,687
Passed through California Department of Education (CDE):			
Child Nutrition Cluster:			
School Basic Breakfast	10.553	13390	5,406
Especially Needy Breakfast	10.553	13526	2,224,993
National School Lunch Program	10.555	13524	7,189,945
Meal Supplement	10.555	13396	259,755
Food Distribution	10.555	13524	721,216
Total Child Nutrition Cluster			<u>10,401,315</u>
CCFP Claims - Centers and Family Day Care	10.558	13393	185,612
Total U.S. Department of Agriculture			<u>10,646,614</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	1,721,537
Medical Administrative Activities Program	93.778	10060	40,436
Total Medicaid Cluster			<u>1,761,973</u>
Passed through Riverside County Office of Education (RCOE):			
Head Start	93.600	10016	1,006,569
Total U.S. Department of Health and Human Services			<u>2,768,542</u>
Total Federal Programs			<u>\$ 26,680,327</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, 2014

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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>
Paul Bakkom	President	2014
Ross Valenzuela	Vice President	2014
Lisa DeForest	Member	2016
Vic Scavarda	Member	2014
Jim Smith	Member	2016
Marilyn Forst	Member	2016
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, 2014**

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	6,094.07	6,106.02
Fourth through sixth	4,487.07	4,486.88
Seventh and eighth	2,818.74	2,810.89
Ninth through twelfth	6,365.61	6,320.43
Total Regular ADA	<u>19,765.49</u>	<u>19,724.22</u>
Extended Year Special Education		
Transitional kindergarten through third	7.09	7.09
Fourth through sixth	3.41	3.41
Seventh and eighth	3.42	3.42
Ninth through twelfth	10.29	10.29
Total Extended Year Special Education	<u>24.21</u>	<u>24.21</u>
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.78	0.90
Fourth through sixth	3.81	3.80
Seventh and eighth	5.55	5.58
Ninth through twelfth	20.45	20.45
Total Special Education, Nonpublic, Nonsectarian Schools	<u>30.59</u>	<u>30.73</u>
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.11	0.11
Fourth through sixth	0.71	0.71
Seventh and eighth	0.31	0.31
Ninth through twelfth	2.60	2.60
Total Extended Year Special Education, Nonpublic, Nonsectarian Schools	<u>3.73</u>	<u>3.73</u>
Total ADA	<u><u>19,824.02</u></u>	<u><u>19,782.89</u></u>

See accompanying note to supplementary information.



**HEMET UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF AVERAGE DAILY ATTENDANCE (Continued)  
FOR THE YEAR ENDED JUNE 30, 2014**

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	Final Report	
	Second Period Report	Annual Report
<b>COLLEGE PREP HIGH CHARTER</b>		
Regular ADA		
Ninth through twelfth	176.94	174.60
	<u>176.94</u>	<u>174.60</u>
<b>Classroom based ADA</b>		
Regular ADA		
Ninth through twelfth	176.94	174.60
	<u>176.94</u>	<u>174.60</u>
<b>WESTERN CENTER ACADEMY CHARTER</b>		
Regular ADA		
Fourth through sixth	124.69	124.49
Seventh and eighth	247.62	247.27
Total Regular ADA	<u>372.31</u>	<u>371.76</u>
<b>Classroom based ADA</b>		
Regular ADA		
Fourth through sixth	124.69	124.49
Seventh and eighth	247.62	247.27
Total Regular ADA	<u>372.31</u>	<u>371.76</u>

See accompanying note to supplementary information.

# HEMET UNIFIED SCHOOL DISTRICT

## SCHEDULE OF INSTRUCTIONAL TIME FOR THE YEAR ENDED JUNE 30, 2014

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Grade Level	1986-87 Minutes Requirement	Reduced 1986-87 Minutes Requirement	2013-14 Actual Minutes	Number of Days		Status
				Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	35,000	36,000	180	N/A	Complied
Grades 1 - 3	50,400	49,000				
Grade 1			51,990	180	N/A	Complied
Grade 2			51,990	180	N/A	Complied
Grade 3			51,990	180	N/A	Complied
Grades 4 - 6	54,000	52,500				
Grade 4			54,130	180	N/A	Complied
Grade 5			54,130	180	N/A	Complied
Grade 6			57,950	180	N/A	Complied
Grades 7 - 8	54,000	52,500				
Grade 7			57,950	180	N/A	Complied
Grade 8			57,950	180	N/A	Complied
Grades 9 - 12	64,800	63,000				
Grade 9			64,840	180	N/A	Complied
Grade 10			64,840	180	N/A	Complied
Grade 11			64,840	180	N/A	Complied
Grade 12			64,840	180	N/A	Complied

See accompanying note to supplementary information.

**HEMET UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF INSTRUCTIONAL TIME (Continued)  
FOR THE YEAR ENDED JUNE 30, 2014**

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**College Prep High School & Western Center Academy**

Grade Level	1986-87	Reduced 1986-87	2013-14	Number of Days		Status
	Minutes Requirement	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Grades 6 - 8	54,000	52,547				
Grade 6			57,950	180	N/A	Complied
Grade 7			57,950	180	N/A	Complied
Grade 8			57,950	180	N/A	Complied
Grades 9 - 12	64,800	62,949				
Grade 9			65,425	180	N/A	Complied
Grade 10			65,425	180	N/A	Complied
Grade 11			65,425	180	N/A	Complied
Grade 12			65,425	180	N/A	Complied

See accompanying note to supplementary information.

## HEMET UNIFIED SCHOOL DISTRICT

### RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

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

	Transportation Enterprise Fund	Internal Service Fund
	<u>                    </u>	<u>                    </u>
FUND BALANCE		
Balance, June 30, 2014, Unaudited Actuals	\$ 1,475,457	\$ 7,326,164
Increase in:		
Capital assets	6,393,647	-
Accumulated depreciation	(4,408,361)	-
Capital lease obligations	(738,396)	-
Claims liability	-	(1,740,896)
Long term IBNR	-	(50,000)
Balance, June 30, 2014, Audited Financial Statement	<u>\$ 2,722,347</u>	<u>\$ 5,535,268</u>

See accompanying note to supplementary information.

# HEMET UNIFIED SCHOOL DISTRICT

## SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2014

	(Budget)			
	2015 <sup>1</sup>	2014	2013	2012
GENERAL FUND <sup>5</sup>				
Revenues	\$ 188,581,672	\$ 179,319,718	\$ 178,926,157	\$ 182,278,909
Other sources and transfers in	347,552	1,502,778	1,707,303	1,274,498
Total Revenues and Other Sources	<u>188,929,224</u>	<u>180,822,496</u>	<u>180,633,460</u>	<u>183,553,407</u>
Expenditures	203,433,508	181,974,484	177,148,467	176,565,435
Other uses and transfers out	2,198,227	4,387,145	2,980,162	3,662,670
Total Expenditures and Other Uses	<u>205,631,735</u>	<u>186,361,629</u>	<u>180,128,629</u>	<u>180,228,105</u>
INCREASE (DECREASE) IN FUND BALANCE	<u>\$ (16,702,511)</u>	<u>\$ (5,539,133)</u>	<u>\$ 504,831</u>	<u>\$ 3,325,302</u>
ENDING FUND BALANCE	<u>\$ 13,724,891</u>	<u>\$ 30,427,402</u>	<u>\$ 35,966,535</u>	<u>\$ 35,461,704</u>
AVAILABLE RESERVES <sup>2</sup>	<u>\$ 9,957,502</u>	<u>\$ 9,110,000</u>	<u>\$ 8,800,000</u>	<u>\$ 8,800,000</u>
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO <sup>3</sup>	<u>4.84%</u>	<u>5.00%</u>	<u>5.00%</u>	<u>5.00%</u>
LONG-TERM OBLIGATIONS	<u>N/A</u>	<u>\$ 248,725,462</u>	<u>\$ 253,615,102</u>	<u>\$ 258,853,341</u>
K-12 AVERAGE DAILY ATTENDANCE AT P-2 <sup>4</sup>	<u>19,416</u>	<u>19,824</u>	<u>19,823</u>	<u>20,343</u>

The General Fund balance has decreased by \$5,034,302 over the past two years. The fiscal year 2014-2015 budget projects a decrease of \$16,702,511 (54.89 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 two of the past three years but anticipates incurring an operating deficit during the 2014-2015 fiscal year. Total long-term obligations have decreased by \$10,127,879 over the past two years.

Average daily attendance has decreased by 519 over the past two years. Additional decline of 408 ADA is anticipated during fiscal year 2014-2015.

<sup>1</sup> Budget 2015 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 \$4,181,629, \$4,157,888, and \$4,236,820, have been excluded from the calculation of available reserves for the fiscal years ending June 30, 2014, 2013, and 2012.

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

<sup>5</sup> General Fund amounts do not include activity related to the consolidation of the Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, and Fund 20, Special Reserve Fund for Postemployment Benefits as required by GASB Statement No. 54.

See accompanying note to supplementary information.

**HEMET UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF CHARTER SCHOOLS  
FOR THE YEAR ENDED JUNE 30, 2014**

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<u>Name of Charter School</u>	<u>Included in Audit Report</u>
College Prep High	Yes
Western Center Academy	Yes

See accompanying note to supplementary information.

**HEMET UNIFIED SCHOOL DISTRICT**

**NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2014**

	<b>Charter Schools Fund</b>	<b>Adult Education Fund</b>	<b>Child Development Fund</b>	<b>Cafeteria Fund</b>
<b>ASSETS</b>				
Deposits and investments	\$ 1,071,001	\$ -	\$ 5,941	\$ 4,257,097
Receivables	1,242,782	-	29,530	1,215,794
Due from other funds	143,988	-	179,713	13,393
Stores inventories	-	-	-	470,989
<b>Total Assets</b>	<b>\$ 2,457,771</b>	<b>\$ -</b>	<b>\$ 215,184</b>	<b>\$ 5,957,273</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 866,646	\$ -	\$ 3,293	\$ 110,351
Due to other funds	169,472	-	211,815	56,616
Unearned revenue	-	-	-	24,111
<b>Total Liabilities</b>	<b>1,036,118</b>	<b>-</b>	<b>215,108</b>	<b>191,078</b>
<b>Fund Balances:</b>				
Nonspendable	-	-	-	470,989
Restricted	129,452	-	76	5,295,206
Committed	-	-	-	-
Assigned	1,292,201	-	-	-
<b>Total Fund Balances</b>	<b>1,421,653</b>	<b>-</b>	<b>76</b>	<b>5,766,195</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 2,457,771</b>	<b>\$ -</b>	<b>\$ 215,184</b>	<b>\$ 5,957,273</b>

See accompanying note to supplementary information.

<b>Deferred Maintenance Fund</b>	<b>Capital 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>
\$ 913,390	\$ 2,966,257	\$ 33,553	\$ 4,822,045	\$ 9,561,971	\$ 4,379,490	\$ 28,010,745
685	2,880	53	-	-	-	2,491,724
-	224	244,208	-	-	-	581,526
-	-	-	-	-	-	470,989
<u>\$ 914,075</u>	<u>\$ 2,969,361</u>	<u>\$ 277,814</u>	<u>\$ 4,822,045</u>	<u>\$ 9,561,971</u>	<u>\$ 4,379,490</u>	<u>\$ 31,554,984</u>
\$ 67,142	\$ 285,426	\$ -	\$ -	\$ -	\$ -	\$ 1,332,858
-	274	-	-	-	-	438,177
-	-	-	-	-	-	24,111
<u>67,142</u>	<u>285,700</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,795,146</u>
-	-	-	-	-	-	470,989
-	2,683,661	-	4,822,045	9,561,971	4,379,490	26,871,901
846,933	-	-	-	-	-	846,933
-	-	277,814	-	-	-	1,570,015
<u>846,933</u>	<u>2,683,661</u>	<u>277,814</u>	<u>4,822,045</u>	<u>9,561,971</u>	<u>4,379,490</u>	<u>29,759,838</u>
<u>\$ 914,075</u>	<u>\$ 2,969,361</u>	<u>\$ 277,814</u>	<u>\$ 4,822,045</u>	<u>\$ 9,561,971</u>	<u>\$ 4,379,490</u>	<u>\$ 31,554,984</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, 2014

	Charter Schools Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund
<b>REVENUES</b>				
Local Control Funding Formula	\$ 3,447,438	\$ -	\$ -	\$ -
Federal sources	-	-	185,612	10,401,314
Other State sources	542,420	-	1,239,916	782,971
Other local sources	439,705	-	44,502	1,047,539
<b>Total Revenues</b>	<b>4,429,563</b>	<b>-</b>	<b>1,470,030</b>	<b>12,231,824</b>
<b>EXPENDITURES</b>				
Current				
Instruction	2,401,086	100	995,503	-
Instruction-related activities:				
Supervision of instruction	15,015	-	162,749	-
School site administration	720,375	-	122,780	-
Pupil services:				
Food services	779	-	198,925	10,723,336
All other pupil services	34,706	-	2,025	-
Administration:				
Data processing	8,448	-	-	-
All other administration	156,070	-	80,759	538,741
Plant services	557,413	-	12,558	216,729
Facility acquisition and construction	-	-	-	116,474
Ancillary services	6,815	-	-	-
Community services	2,721	-	-	-
Debt service				
Principal	-	-	-	-
Interest and other	-	-	-	-
<b>Total Expenditures</b>	<b>3,903,428</b>	<b>100</b>	<b>1,575,299</b>	<b>11,595,280</b>
<b>Excess (Deficiency) of Revenues</b>				
<b>Over Expenditures</b>	<b>526,135</b>	<b>(100)</b>	<b>(105,269)</b>	<b>636,544</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	500	100	76,545	-
Other sources	-	-	-	-
Transfers out	(377,143)	-	-	(80,433)
<b>Net Financing Sources (Uses)</b>	<b>(376,643)</b>	<b>100</b>	<b>76,545</b>	<b>(80,433)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>149,492</b>	<b>-</b>	<b>(28,724)</b>	<b>556,111</b>
<b>Fund Balances - Beginning</b>	<b>1,272,161</b>	<b>-</b>	<b>28,800</b>	<b>5,210,084</b>
<b>Fund Balances - Ending</b>	<b>\$ 1,421,653</b>	<b>\$ -</b>	<b>\$ 76</b>	<b>\$ 5,766,195</b>

See accompanying note to supplementary information.

<b>Deferred Maintenance Fund</b>	<b>Capital 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>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,447,438
-	-	-	-	-	-	10,586,926
-	-	244,208	-	191,628	-	3,001,143
3,241	254,357	179	220,742	10,546,128	121,959	12,678,352
<u>3,241</u>	<u>254,357</u>	<u>244,387</u>	<u>220,742</u>	<u>10,737,756</u>	<u>121,959</u>	<u>29,713,859</u>
-	-	-	-	-	-	3,396,689
-	-	-	-	-	-	177,764
-	-	-	-	-	-	843,155
-	-	-	-	-	-	10,923,040
-	-	-	-	-	-	36,731
-	-	-	-	-	-	8,448
-	33,159	-	-	-	-	808,729
974,092	-	-	-	-	-	1,760,792
714,950	892,003	-	-	-	-	1,723,427
-	-	-	-	-	-	6,815
-	-	-	-	-	-	2,721
-	-	-	-	4,175,000	1,400,000	5,575,000
-	-	1,247,000	-	6,081,237	2,467,825	9,796,062
<u>1,689,042</u>	<u>925,162</u>	<u>1,247,000</u>	<u>-</u>	<u>10,256,237</u>	<u>3,867,825</u>	<u>35,059,373</u>
<u>(1,685,801)</u>	<u>(670,805)</u>	<u>(1,002,613)</u>	<u>220,742</u>	<u>481,519</u>	<u>(3,745,866)</u>	<u>(5,345,514)</u>
710,000	-	-	-	-	3,867,825	4,654,970
-	-	1,247,000	-	-	-	1,247,000
-	-	-	-	-	-	(457,576)
<u>710,000</u>	<u>-</u>	<u>1,247,000</u>	<u>-</u>	<u>-</u>	<u>3,867,825</u>	<u>5,444,394</u>
(975,801)	(670,805)	244,387	220,742	481,519	121,959	98,880
1,822,734	3,354,466	33,427	4,601,303	9,080,452	4,257,531	29,660,958
<u>\$ 846,933</u>	<u>\$ 2,683,661</u>	<u>\$ 277,814</u>	<u>\$ 4,822,045</u>	<u>\$ 9,561,971</u>	<u>\$ 4,379,490</u>	<u>\$ 29,759,838</u>

# HEMET UNIFIED SCHOOL DISTRICT

## NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2014

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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 and Medi-Cal Administrative Activities) funds that in the previous period were recorded as revenues but were unspent. These unspent balances have been expended in the current period.

Description	<u>CFDA Number</u>	<u>Amount</u>
Total Federal Revenues From the Statement of Revenues, Expenditures and Changes in Fund Balances:		\$ 26,029,799
Medi-Cal Billing Option	93.778	610,092
Medi-Cal Administrative Activities Program	93.778	40,436
Total Schedule of Expenditures of Federal Awards		<u>\$ 26,680,327</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, 2014

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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. The District neither met nor exceeded its target funding. 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 the 1986-87 requirements, 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.

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***INDEPENDENT AUDITOR'S REPORTS***

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**INDEPENDENT AUDITOR'S 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, the business-type 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, 2014, 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 December 15, 2014.

**Emphasis of Matter - Change in Accounting Principles**

As discussed in Note 17 to the financial statements, the District has elected to change its method of accounting for cost of debt issuance as prescribed by GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

**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 December 15, 2014.

### **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.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California  
December 15, 2014



**INDEPENDENT AUDITOR'S 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, 2014. 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, 2014.

## 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.

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California  
December 15, 2014



**INDEPENDENT AUDITOR'S 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 2013-2014* 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, 2014.

**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 2013-2014*. 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 opinions. Our audit does not provide a legal determination of Hemet Unified School District's compliance with those requirements.

**Unmodified Opinion on Each of the 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, 2014.

**Other Matters**

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

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Attendance Accounting:		
Attendance Reporting	6	Yes
Teacher Certification and Misassignments	3	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	Yes
Continuation Education	10	Yes
Instructional Time:		
School Districts	10	Yes
Instructional Materials:		
General Requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	Not Applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Juvenile Court Schools	8	Not Applicable
Local Control Funding Formula Certification	1	Yes
California Clean Energy Jobs Act	3	No, See Below
After School Education and Safety Program:		
General Requirements	4	Yes
After School	5	Yes
Before School	6	Not Applicable
Education Protection Account Funds	1	Yes
Common Core Implementation Funds	3	Yes
Unduplicated Local Control Funding Formula Pupil Counts	3	Yes
Charter Schools:		
Contemporaneous Records of Attendance	8	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
Charter School Facility Grant Program	1	Yes

We did not perform testing for the California Clean Energy Jobs Act because no expenditures were noted in the current year for the funds that were received.

*Vavrinek, Trine, Day & Co. LLP*

Rancho Cucamonga, California  
December 15, 2014

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*SCHEDULE OF FINDINGS AND QUESTIONED COSTS*

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**HEMET UNIFIED SCHOOL DISTRICT**

**SUMMARY OF AUDITOR'S RESULTS  
FOR THE YEAR ENDED JUNE 30, 2014**

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**FINANCIAL STATEMENTS**

Type of auditor's 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 Federal programs:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None reported</u>
Type of auditor's report issued on compliance for major Federal 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 Federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.027, 84.027A, 84.173, and 84.173A	Special Education Cluster (IDEA)
84.411	ARRA - Investing in Innovation (i3) Fund
93.778	Medicaid Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 800,410</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

**STATE AWARDS**

Type of auditor's 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, 2014**

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None reported.

**HEMET UNIFIED SCHOOL DISTRICT**

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2014**

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None reported.

**HEMET UNIFIED SCHOOL DISTRICT**

**STATE AWARDS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2014**

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None reported.



**HEMET UNIFIED SCHOOL DISTRICT**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2014**

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



Governing Board  
Hemet Unified School District  
Hemet, California

In planning and performing our audit of the basic financial statements of Hemet Unified School District (the District) for the year ending June 30, 2014, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are an opportunity for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 15, 2014, on the financial statements of Hemet Unified School District.

***SITE CASH***

***McSweeny Elementary School- Site Cash***

**Observation**

Deposits are not being made timely by the office manager. This results in large cash balances being maintained at the site which severely decreases the safeguarding of the asset.

**Recommendation**

At a minimum, deposits should be made weekly to minimize the amount of cash held at the site. During weeks of high cash activity there may be a need to make more than one deposit. The District should establish guidelines for this procedure including the maximum cash on hand that should be maintained at the site. The ultimate responsibility, however, will reside with the office manager to make the deposits timely

**Observation**

A lack of segregation of duties exists in the performance of cash collection functions. The office manager performs all accounting functions.

**Recommendation**

The duties of the office manager should be evaluated to determine if there are procedures that can be performed by other personnel to provide for some segregation of duties.

### **Observation**

We were unable to perform certain procedures due to the condition of the records at the site. The following problem was noted during our review:

- The information necessary to perform our testing was unavailable.
- Missing deposits were noted.

### **Recommendation**

The District should look into the controls at the site. Procedures should be outlined and explained to the site personnel. A periodic review should be made by the District of the sites progress towards the deficiencies mentioned above.

## ***ASSOCIATED STUDENT BODY (ASB)***

### ***Dartmouth Middle School- Revenue Potentials***

#### **Observation**

Revenue potential forms are not being filled out completely so as 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.

***Dartmouth Middle School- Change Fund***

**Observation**

ASB student store sales collected are being given out as a change fund for events.

**Recommendation**

We recommend that a change fund is maintained separately from the student store sales. In addition, a change fund log should be maintained. When a change box is issued, they should be logged out noting the amount of change fund checked out and to whom the monies were issued. When the change box is returned, the monies should be reconciled to the log.

***Dartmouth Middle School- Cash Collections***

**Observation**

Cash collections are being verified and receipted at a later date, rather than at the time or soon after the collection of the money by the bookkeeper. As a result, sufficient controls do not exist with regards to cash collections, since funds on hand, if lost or stolen, could not be verified. Auditor noted that receipt number 3924 was deposited on November 8, 2013, but receipted on November 15, 2013.

**Recommendation**

To strengthen the procedures over cash collections, all cash should be verified and receipted at the time of or very soon after the money is turned over to the bookkeeper. This procedure prevents and avoids any dispute over the amount of cash submitted by the person turning in the funds to the office. The immediate receipting process is also a tool for the bookkeeper to reconcile the cash awaiting deposit to the receipts issued since the last bank deposit. The current system would not disclose that funds have been misplaced or stolen since the cash on hand at the date of the deposit would be the only funds receipted.

***Dartmouth Middle School- Petty Cash***

**Observation**

Auditor noted a \$50.45 difference due to a missing receipt.

**Recommendation**

Petty cash reimbursements should be accompanied by a receipt of the purchase made. If receipts are not collected for petty cash reimbursements, the bookkeeper has no way to knowing if the money is misplaced or has been stolen.

***Dartmouth Middle School- Financial Statements***

**Observation**

In reviewing the financial statement (balance sheet) and bank reconciliation for our test month (November 2013), we noted that the calculated book balance on the bank reconciliation was significantly less than the value reported on the balance sheet / account analysis report. Per conversation with the ASB Clerk, who was not familiar with the Blue Bear accounting software, and was still learning how to operate the program, and as a result, when the ASB clerk tried to balance the financial statements, incorrect adjustments were made in an attempt to tie out the financials.

**Recommendation**

The monthly reconciliation and financial statement preparation procedures should be reviewed by an administrator. The purpose of the review is to catch and correct any errors in a timely matter so that the student body account's total will agree. The site personnel should work closely with the District to address any issues that might come up in the reconciliation or month end closing. This will allow the District to provide support and training as deemed necessary.

***Helen Hunt Jackson- Revenue Potentials***

**Observation**

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**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.
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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.

***College Prep- Cash Deposits***

**Observation**

Cash receipt deposit amounts did not match amounts deposited on bank statement.

**Recommendation**

Cash receipt amounts should match amounts that were deposited. To strengthen the procedures over cash collections, all cash should be verified and receipted at the time of or very soon after the money is turned over to the bookkeeper. This procedure prevents and avoids any dispute over the amount of cash submitted by the person turning in the funds to the office. The immediate receipting process is also a tool for the bookkeeper to reconcile the cash awaiting deposit to the receipts issued since the last bank deposit. The current system would not disclose that funds have been misplaced or stolen since the cash on hand at the date of the deposit would be the only funds receipted.

***College Prep- Student Store Inventory***

**Observation**

The student store does not maintain an inventory of the merchandise purchased or sold, therefore no accountability exists for the inventory.

**Recommendation**

According to the policies and procedures outlined in the "Accounting Procedures for Student Body Organizations", prepared by the California Department of Education, a physical inventory should be taken quarterly under supervision of the student store advisor. The inventory listing should contain a description, unit cost, quantity, and extended value. This information is necessary in order to analyze sales activity, profits, and to determine if merchandise has been lost or stolen. The June 30 inventory report would also be used in the preparation of the financial statements prepared for the Associated Student Body of the site.

***College Prep- Snack Bar***

**Observation**

The following deficiencies exist in the internal control structure of the snack bar operated by the student body:

- Snack bar transactions are not maintained in a separate sub-ledger account from the general Associated Student Body accounts.
- Sales analysis forms are not prepared to document sales by day or week.
- An inventory record is not maintained for merchandise sold or purchased.
- Pre – Numbered receipts being issued for every transaction.

As a result of these deficiencies, procedures do not exist to substantiate the revenue generated. In addition, the profitability of the snack bar cannot be analyzed.

**Recommendation**

The student body should submit a sales analysis form with every deposit, maintain a perpetual inventory of goods purchased and sold, perform a physical inventory count at least quarterly, and create a separate sub-ledger account for snack bar transactions only. The snack bar account should document transactions regarding the sales and purchases of the snack bar. This would allow the profitability of the snack bar to be analyzed during the year.

*College Prep- Change Fund*

**Observation**

Site has a change fund that is not recorded on financial statements.

**Recommendation**

The District should look into the situation at the site. Procedures should be outlined and explained to the site personnel. A periodic review should be made by the District of the sites progress towards the deficiencies mentioned above.

*College Prep- Deposits*

**Observation**

Auditor noted multiple receipts dated after the date those receipts were deposited to the bank.

**Recommendation**

Receipts should be dated no later than the date of deposit those receipts are included in. Receipts dated after date of deposit indicates they were written after cash was collected. This is a weakness in receipting controls; receipts should be issued each time cash is collected.

*Hemet High School- Inventory*

**Observation**

During our audit of the inventory procedures, we noted that the Inventory Count was not added to the Balance Sheet.

**Recommendation**

According to the policies and procedures outlined in the "Accounting Procedures for Student Body Organizations", prepared by the California Department of Education, a physical inventory should be taken quarterly under supervision of the student store advisor. The inventory listing should contain a description, unit cost, quantity, and extended value. This information is necessary in order to analyze sales activity, profits, and to determine if merchandise has been lost or stolen. The June 30 inventory report would also be used in the preparation of the financial statements prepared for the Associated Student Body of the site.

Governing Board  
Hemet Unified School District

*Library*

*Hemet High School- Cash Receipts*

**Observation**

During our audit of site cash collection procedures, we noted that receipts are not written for all cash received from students for copies that are subsequently forwarded to the District Office. It was also made known to the auditor the library is given an amount for a change fund, but is given the leeway to fluctuate that amount.

**Recommendation**

All site cash collections should be receipted intact and in a timely manner. A log should be maintained for the amount collected by individual for the copies provided to the student. This information must be forwarded to the District Office so that they know what accounts to adjust for the collection. And that the District gives permission for and documents a fixed amount for the change fund.

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

*Vavrinek, Trine, Day & Co. LLP*

Rancho Cucamonga, California  
December 15, 2014