

HEMET UNIFIED SCHOOL DISTRICT

BUILDING FUND

FINANCIAL STATEMENT REPORT

JUNE 30, 2003

HEMET UNIFIED SCHOOL DISTRICT - BUILDING FUND

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INDEPENDENT AUDITORS' REPORT

Governing Board and Citizens' Oversight Committee
Hemet Unified School District
Hemet, California

We have audited the accompanying financial statements of the building fund of the Hemet Unified School District, as of the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the building fund and do not purport to, and do not, present fairly the financial position of the Hemet Unified School District as of June 30, 2003, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the building fund of the Hemet Unified School District at June 30, 2003, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Rancho Cucamonga, California
October 31, 2003

HEMET UNIFIED SCHOOL DISTRICT - BUILDING FUND

BALANCE SHEET

JUNE 30, 2003

ASSETS

Investments	\$ 25,645,188
Accounts receivable	47,360
Due from Capital Facilities Fund	35,000
Total Assets	<u>\$ 25,727,548</u>

LIABILITIES AND FUND EQUITY

LIABILITIES

Accounts payable	621,899
Total Liabilities	<u>621,899</u>

FUND EQUITY

Fund balances	
Undesignated	25,105,649
Total Fund Equity	<u>25,105,649</u>
Total Liabilities and Fund Equity	<u>\$ 25,727,548</u>

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

HEMET UNIFIED SCHOOL DISTRICT - BUILDING FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE FOR THE YEAR ENDED JUNE 30, 2003

REVENUES	
Other local revenues	\$ 247,829
Total Revenues	<u>247,829</u>
EXPENDITURES	
Capital outlay	13,023,098
Total Expenditures	<u>13,023,098</u>
EXCESS OF REVENUES UNDER EXPENDITURES	<u>(12,775,269)</u>
OTHER FINANCING SOURCES	
Other sources	15,000,000
Total Other Financing Sources	<u>15,000,000</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER USES	2,224,731
FUND BALANCE, BEGINNING OF YEAR	<u>22,880,918</u>
FUND BALANCE, END OF PERIOD	<u><u>\$ 25,105,649</u></u>

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

HEMET UNIFIED SCHOOL DISTRICT – BUILDING FUND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

NOTE #1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Hemet Unified School District Building Fund's conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants. The Hemet Unified School District Building Fund accounts for financial transactions in accordance with the policies and procedures of the California School Accounting Manual.

A. Financial Reporting Entity

The audited financial statements includes only the Building Fund of the Hemet Unified School District that was established to account for the expenditures of the general obligation bonds issued in April 2002 and June 2003. These financial statements are not intended to present fairly the financial position and the changes in financial position of the Hemet Unified School District in compliance with accounting principles generally accepted in the United States of America.

B. Fund Accounting

The operations of the Building Fund are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Resources are allocated to and accounted for in the fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

C. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied.

Governmental funds are generally accounted for using the modified accrual basis of accounting. Their revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current fiscal period. Expenditures are recognized in the accounting period in which the liability is incurred (when goods are received or services rendered), except for unmatured interest on general long-term debt, which is recognized when due.

D. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. The District's Governing Board adopts an operating budget no later than July 1 in accordance with State law. A public hearing must be conducted to receive comments prior to adoption. The District's Governing Board satisfied these requirements. The Board revises this budget during the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption. It is this final revised budget that is presented in these financial statements. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

HEMET UNIFIED SCHOOL DISTRICT – BUILDING FUND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

E. Encumbrances

The District utilizes an encumbrance accounting system under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation. Encumbrances are liquidated when the commitments are paid and all outstanding encumbrances are liquidated at June 30 since they do not constitute expenditures or liabilities.

F. Fund Balance Reserves and Designations

Reservations of the ending fund balance indicate the portions of fund balance not available for appropriation or amounts legally segregated for a specific future use. Designations of the ending fund balance indicate tentative plans for financial resource utilization in a future period.

G. 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 for the District. The District recognizes tax revenues when received.

H. Use of Estimates

The preparation of 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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

NOTE #2 – INVESTMENTS

Investments at June 30, 2003, held on behalf of the Building Fund of the Hemet Unified School District consist of deposits in the County of Riverside Treasury:

	Reported Amount	Fair Value
Deposits with county treasurer	<u>\$25,645,188</u>	<u>\$25,658,216</u>

Deposits with county treasurer is an external investment pool sponsored by the County of Riverside. School districts are required to deposit all receipts and collections of monies with their county treasurer (Education Code Section 15146(b)).

Therefore, the District is considered to be an involuntary participant in an external investments pool. County deposits are not required to be categorized. The pool sponsor provided the fair value for these deposits.

HEMET UNIFIED SCHOOL DISTRICT – BUILDING FUND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE #3 – ACCOUNTS RECEIVABLE

Receivables at June 30, 2003, consist of the following:

Interest	<u>\$ 47,360</u>
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NOTE #4 – INTERFUND TRANSACTIONS

Interfund Receivables (Due From)

The amount of interfund receivable balance due at June 30, 2003, is \$35,000. This amount is due from the Capital Facilities Fund to the Building Fund.

NOTE #5 – ACCOUNTS PAYABLE

Accounts payable at June 30, 2003, consists of the following:

Vendor payables	<u>\$ 621,899</u>
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NOTE #6 – FUND BALANCE

Fund balance is composed of the following element:

Unreserved	
Undesignated	<u>\$25,105,649</u>

HEMET UNIFIED SCHOOL DISTRICT – BUILDING FUND

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE #7 – COMMITMENTS AND CONTINGENCIES

As of June 30, 2003, the Building Fund had the following commitments as defined by the bond documents:

<u>Construction of New School Facilities</u>	<u>Upgrade and Major Repair of Existing Facilities</u>
Harmony Elementary School	Acacia Middle School
Diamond Valley Middle School	Alessandro Continuation High School
Jacob Wiens Elementary	Bautista Creek Elementary
McSweeny Elementary School	Cottonwood School
Cawston Elementary School	Dartmouth Middle School
New High School #1	Fruitvale Elementary School
	Hamilton School (Elementary Campus)
	Hemet Elementary School
	Hemet High School
	Idyllwild School (Old Campus)
	Little Lake Elementary
	Ramona Elementary School
	Santa Fe Middle School
	Valle Vista Elementary School
	West Valley High School
	Whittier Elementary School
	Winchester Elementary School

HEMET UNIFIED SCHOOL DISTRICT

**GENERAL OBLIGATION BONDS
AGREED-UPON PROCEDURES
REPORT**

JUNE 30, 2003



INDEPENDENT ACCOUNTANTS' REPORT ON
APPLYING AGREED-UPON PROCEDURES

Governing Board and Citizens' Oversight Committee
Hemet Unified School District
Hemet, California

We have performed the agreed-upon procedures, which were agreed to by the management of the Hemet Unified School District and the Citizens' Oversight Committee, to review the expenditures of the 2002 and June 2003 issuances for the General Obligation Bond funds for the period of July 1, 2002 through June 30, 2003, for the purpose of verifying if the use of the funds is within the scope of the published materials specifying the intended use of bond funds. We used election documents and the District resolutions as the guidance for the intended use of the funds. For any expenditures in question, we recommended that the District obtain the opinion of legal counsel, and we informed this committee as to the issues. Management is responsible for Hemet Unified School District's compliance with those requirements. This engagement to perform agreed-upon procedures was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants and meets the compliance requirements to perform an "audit" as outlined in subparagraph (C) of paragraph (3) of subdivision (b) of section 1 of Article XIII A of the California Constitution. The sufficiency of these procedures is solely the responsibility of those specified parties in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Financial Summary

1. The general obligation bond funds were authorized at an election of the registered voters of the District held on March 5, 2002. Series A bonds were authorized at an issuance of \$23,000,000, and Series B bonds were authorized at an issuance of \$15,000,000 principal amounts for the purpose of financing the addition and modernization of school facilities. The bonds were issued in 2002 and 2003 and sold in the amounts of \$23,000,000 and \$15,000,000, respectively.
2. Total expenditures through June 30, 2003, were \$13,023,098.
3. An analysis of expenditures is as follows:

Expenditures

Capital outlay

\$ 13,023,098

4. Available unspent funds from the bond as of June 30, 2003, are:

Balance as of July 1, 2002	\$ 22,880,918
General obligation bonds	15,000,000
Interest earned in building fund	247,829
Total expenditures	(13,023,098)
Amount Available	<u>\$ 25,105,649</u>

Agreed Upon Procedures Performed

1. Verify that the expenditure of funds were accounted for separately in the accounting records to allow for accountability.
2. Verify that the net funds from the sale of the General Obligation Bonds were deposited in total into the District's accounts by obtaining settlement statement for the new bond issue and verifying amounts deposited into the building fund.
3. Select the 10 highest and 10 lowest invoices on each individual project (using judgment for the selection process). For projects with less than 20 invoices select all invoices. For each invoice selected verify that the funds expended complied with the purpose that was specified to the registered voters of the District through election materials and district resolutions that were distributed to the voters.
4. Verify that the District's construction management company (Barnhart) did not hold disbursements to subcontractors for more than 10 days, and determine if any protests or significant disputes exist regarding these payments.

Results of Procedures

1. The general obligations bond fund expenditures were accounted for separately in the building fund of the District.
2. The net proceeds from the sale of the general obligation bonds were deposited into the appropriate accounts within the building fund.
3. Our review of the expenditures for the period of July 1, 2002 through June 30, 2003, did not reveal any items that were paid from the general obligation bond funds that did not comply with the purpose of the Bonds that were approved by the registered voters of the District on March 5, 2002.
4. The District did not process payments to the construction management company (Barnhart) from bond proceeds during fiscal year 2002-2003. All payments processed using the 10 day methodology were from other District funds and were not included within the scope of our procedures.

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on compliance. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Hemet Unified School District and the Citizens' Oversight Committee, and is not intended to be and should not be used by anyone other than those specified parties.

Rancho Cucamonga, California
October 31, 2003

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HEMET UNIFIED SCHOOL DISTRICT

**SCHEDULE OF DISBURSEMENTS BY SITE
PERIOD ENDING JUNE 30, 2003**

Acacia	\$	336,634
Alternative Learning Center		58,870
Bautista Creek		83,149
Bond Issuance Costs		372,146
Cawston		1,269,233
Cottonwood		44,836
Dartmouth		27,356
Diamond Valley Middle		44,725
Fruitvale		42,876
Hamilton		26,860
Harmony		4,017,824
Hemet Elementary		408,100
Hemet High School		374,284
Idyllwild		159,513
Jacob Wiens		21,171
Little Lake		194,041
McSweeny		4,550,024
New High School #1		23,888
Ramona		198,836
Santa Fe		405,093
Valle Vista		67,369
West Valley High		84,555
Whittier		150,370
Winchester		61,345
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Total	\$	<u>13,023,098</u>