

HEMET UNIFIED SCHOOL DISTRICT
BUILDING FUND

FINANCIAL STATEMENT REPORT

JUNE 30, 2004

**HEMET UNIFIED SCHOOL DISTRICT
BUILDING FUND**

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JUNE 30, 2004**

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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 (the "District"), as of the year ended June 30, 2004, 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 District as of June 30, 2004, 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 District at June 30, 2004, 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.

Vavrinek, Trine, Day & Co., LLP
Rancho Cucamonga, California
October 22, 2004

**HEMET UNIFIED SCHOOL DISTRICT
BUILDING FUND**

**BALANCE SHEET
JUNE 30, 2004**

ASSETS

Investments	\$ 11,999,796
Accounts receivable	36,180
Due from General Fund	<u>5,500,000</u>
Total Assets	<u>\$ 17,535,976</u>

LIABILITIES AND FUND EQUITY

LIABILITIES

Accounts payable	1,880,459
Total Liabilities	<u>1,880,459</u>

FUND EQUITY

Fund balance	
Undesignated	<u>15,655,517</u>
Total Fund Equity	<u>15,655,517</u>
Total Liabilities and Fund Equity	<u>\$ 17,535,976</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, 2004**

REVENUES

Other local revenues	\$ 224,310
Total Revenues	<u>224,310</u>

EXPENDITURES

Capital outlay	19,674,442
Total Expenditures	<u>19,674,442</u>

EXCESS OF REVENUES

OVER EXPENDITURES	<u>(19,450,132)</u>
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OTHER FINANCING SOURCES

Other sources	10,000,000
Total Other Financing Sources	<u>10,000,000</u>

EXCESS OF REVENUES AND OTHER

FINANCING SOURCES OVER	
EXPENDITURES AND OTHER USES	(9,450,132)

FUND BALANCE, BEGINNING OF YEAR

25,105,649

FUND BALANCE, END OF PERIOD

\$ 15,655,517

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

**HEMET UNIFIED SCHOOL DISTRICT
BUILDING FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Hemet Unified School District bond funds 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 June 2002, June 2003, and May 2004. 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 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, 2004**

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, 2004, held on behalf of the building fund of the Hemet Unified School District consist of deposits in the County of Riverside Treasury:

	<u>Reported Amount</u>	<u>Fair Value</u>
Uncategorized		
Deposits with county treasurer	<u>\$ 11,999,796</u>	<u>\$ 12,051,758</u>

Deposits with county treasurer are 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)).

**HEMET UNIFIED SCHOOL DISTRICT
BUILDING FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

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.

NOTE 3 - ACCOUNTS RECEIVABLE

Receivables at June 30, 2004, consist of the following:

Interest	<u>\$ 36,180</u>
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NOTE 4 - INTERFUND TRANSACTIONS

Interfund Receivables (Due From)

The amount of interfund receivable balance due at June 30, 2004, is \$5,500,000. This amount is due from the Districts General Fund to the Building Fund.

NOTE 5 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2004, consists of the following:

Vendor payables	<u>\$ 1,880,459</u>
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NOTE 6 - FUND BALANCE

Fund balance is composed of the following element:

Unreserved Undesignated	<u>\$ 15,655,517</u>
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**HEMET UNIFIED SCHOOL DISTRICT
BUILDING FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 7 - LONG-TERM DEBT

A. Long-Term Debt Summary

Under the modified accrual basis of accounting, liabilities for long-term debt are reported in the long-term debt rather than the building or other funds. A schedule of changes in long-term debt for the year ended June 30, 2004, is shown below:

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
General obligation bonds	\$ 38,000,000	\$ 10,000,000	\$ 395,000	\$ 47,605,000

B. General Obligation Bonds

2002 General Obligation Bonds, Series A

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Beginning of Year	Issued	Redeemed	Bonds End of Year
2002	2027	1.70-5.05	\$ 23,000,000	\$ 23,000,000	\$ -	\$ 395,000	\$ 22,605,000

2002 General Obligation Bonds, Series B

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Beginning of Year	Issued	Redeemed	Bonds End of Year
2003	2028	1.00 - 4.25	\$ 15,000,000	\$ 15,000,000	\$ -	\$ -	\$ 15,000,000

2002 General Obligation Bonds, Series C

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Beginning of Year	Issued	Redeemed	Bonds End of Year
2004	2029	4.00 - 5.00	\$ 10,000,000	\$ -	\$ 10,000,000	\$ -	\$ 10,000,000

**HEMET UNIFIED SCHOOL DISTRICT
BUILDING FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

Debt Service Requirements

The general obligation bonds Series A mature through 2027 as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 545,000	\$ 1,009,804	\$ 1,554,804
2006	575,000	995,804	1,570,804
2007	600,000	980,516	1,580,516
2008	635,000	962,891	1,597,891
2009	665,000	942,227	1,607,227
2010-2014	3,850,000	4,309,366	8,159,366
2015-2019	4,915,000	3,381,486	8,296,486
2020-2024	6,255,000	2,035,326	8,290,326
2025-2027	4,565,000	376,384	4,941,384
Total	<u>\$ 22,605,000</u>	<u>\$ 14,993,804</u>	<u>\$ 37,598,804</u>

The general obligation bonds Series B mature through 2028 as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 285,000	\$ 599,205	\$ 884,205
2006	380,000	580,918	960,918
2007	395,000	559,605	954,605
2008	420,000	537,192	957,192
2009	435,000	513,680	948,680
2010-2014	2,470,000	2,316,805	4,786,805
2015-2019	3,065,000	1,862,237	4,927,237
2020-2024	3,820,000	1,204,532	5,024,532
2025-2028	3,730,000	326,189	4,056,189
Total	<u>\$ 15,000,000</u>	<u>\$ 8,500,363</u>	<u>\$ 23,500,363</u>

**HEMET UNIFIED SCHOOL DISTRICT
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**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

The general obligation bonds Series C mature through 2029 as follows:

Year Ending June 30,	Principal	Interest	Total
2005	\$ -	\$ 307,777	\$ 307,777
2006	125,000	476,528	601,528
2007	235,000	467,528	702,528
2008	245,000	455,528	700,528
2009	265,000	442,778	707,778
2010-2014	1,550,000	1,996,215	3,546,215
2015-2019	1,965,000	1,607,842	3,572,842
2020-2024	2,455,000	1,101,245	3,556,245
2025-2029	3,160,000	410,744	3,570,744
Total	<u>\$ 10,000,000</u>	<u>\$ 7,266,185</u>	<u>\$ 17,266,185</u>

NOTE 8 - COMMITMENTS AND CONTINGENCIES

As of June 30, 2004, the Building Fund had the following commitments as defined by the bond documents:

Construction of New School Facilities

Harmony Elementary School
Diamond Valley Middle School
Jacob Wiens Elementary
McSweeny Elementary School
Cawston Elementary School
Tahquitz High School

Upgrade and Major Repair of Existing Facilities

Acacia Middle School
Fruitvale Elementary School
Hamilton School (Elementary Campus)
Hemet Elementary School
Hemet High School
Idyllwild School Expansion
Idyllwild Modernization
Little Lake Elementary School
Ramona Elementary School
Santa Fe Middle School
Valle Vista Elementary School
Walnut Valley High School
Whittier Elementary School
Winchester Elementary School

HEMET UNIFIED SCHOOL DISTRICT

**GENERAL OBLIGATION BONDS
Agreed-Upon Procedures Report**

JUNE 30, 2004



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 June 2002, June 2003, and May 2004 issuances for the General Obligation Bond funds for the period of July 1, 2003 through June 30, 2004, 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. 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 and Series C Bonds, were authorized at an issuance of \$10,000,000 principal amounts for the purpose of financing the addition and modernization of school facilities. The bonds were issued in 2002, 2003, and 2004 and sold in the amounts of \$23,000,000, \$15,000,000, and \$10,000,000, respectively.
2. Total expenditures through June 30, 2004, were \$19,674,442.
3. An analysis of expenditures is as follows:

Expenditures

Capital outlay

\$ 19,674,442

4. Available unspent funds from the bond as of June 30, 2004, are:

Balance as of July 1, 2003	\$ 25,105,649
General obligation bonds issued	10,000,000
Interest earned in building fund	224,310
Total expenditures	(19,674,442)
Amount Available	<u>\$ 15,655,517</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 multi-prime contractor for more than 10 days, and determine if any protests or significant disputes exist regarding these payments. If exceptions or problems with this system are discovered additional disbursements will be selected to determine if the exception was an isolated incident.

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, 2003 through June 30, 2004, 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. We performed testing on two applications for payment for the months of October and November. We found that payments were being withheld in excess of the established ten-day period. Additional testing was performed on two applications for December and January. We again found that payments were withheld in excess of the established ten-day period. In both cases, it was indicated that payments were withheld by the construction management company, because the multi-prime contractor had yet to meet the required criteria for payment. No protest or significant disputes exist regarding these payments.

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.

Vaninch, Tri, Day & Co., LLP

Rancho Cucamonga, California

October 22, 2004

HEMET UNIFIED SCHOOL DISTRICT

**SCHEDULE OF DISBURSEMENTS BY SITE
PERIOD ENDING JUNE 30, 2004**

Acacia	\$ 155,758
Hamilton	101,723
Hemet High	1,487,693
Idyllwild	31,055
Little Lake	240,297
Ramona	91,894
Santa Fe	190,695
Whittier	168,579
Winchester	47,244
Cawston	4,498,607
Diamond Valley	7,741,994
Harmony	444,084
Jacob Wiens	1,709,594
McSweeny	71,160
Tahquitz	1,477,371
Cottonwood	161,497
Fruitvale	78,104
Hemet Elementary	673,375
Valle Vista	24,969
West Valley High	110,030
Issuance Costs	168,719
Total	<u><u>\$ 19,674,442</u></u>