

**HEMET UNIFIED SCHOOL DISTRICT**

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**2006 GENERAL OBLIGATION BONDS  
MEASURE T  
AUDIT REPORT**

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**JUNE 30, 2013**

**HEMET UNIFIED SCHOOL DISTRICT**

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**2006 GENERAL OBLIGATION BONDS  
MEASURE T  
FINANCIAL AUDIT**

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**JUNE 30, 2013**

**HEMET UNIFIED SCHOOL DISTRICT  
BUILDING FUND  
(MEASURE T)**

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JUNE 30, 2013**

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## INDEPENDENT AUDITORS' REPORT

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the Hemet Unified School District's (the District), Building Fund (Measure T), and the related notes to the financial statements, as of and for the year ended June 30, 2013, 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 statement 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 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 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 financial statements, whether due to error or fraud. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant accounting 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.

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Building Fund (Measure T) of the Hemet Unified School District at June 30, 2013, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## Emphasis of Matter

As discussed in Note 1, the financial statements present only the Building Fund specific to Measure T, and are not intended to present fairly the financial position and changes in financial position of Hemet Unified School District in conformity with accounting principles generally accepted in the United States of America.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2013, on our consideration of the District Building Fund's (Measure T) internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's Building Fund's (Measure T) internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Rancho Cucamonga, California  
December 20, 2013

**HEMET UNIFIED SCHOOL DISTRICT  
BUILDING FUND  
(MEASURE T)**

**BALANCE SHEET  
JUNE 30, 2013**

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**ASSETS**

Investments	\$ 29,526,562
Accounts receivable	23,977
<b>Total Assets</b>	<b>\$ 29,550,539</b>

**LIABILITIES AND FUND BALANCE**

**Liabilities:**

Accounts payable	\$ 2,226,569
Due to other funds	79
<b>Total Liabilities</b>	<b>2,226,648</b>

**Fund Balance:**

Restricted for capital projects funds	27,323,891
<b>Total Fund Balance</b>	<b>27,323,891</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 29,550,539</b>

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

**HEMET UNIFIED SCHOOL DISTRICT  
BUILDING FUND  
(MEASURE T)**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2013**

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**REVENUES**

Other local sources	\$ 102,743
<b>Total Revenues</b>	<u>102,743</u>

**EXPENDITURES**

Current	
Plant services	800
Facility acquisition and construction	9,357,779
<b>Total Expenditures</b>	<u>9,358,579</u>

**DEFICIENCY OF REVENUES OVER EXPENDITURES** (9,255,836)

**Other Financing Sources:**

Transfers in	<u>12,551,577</u>
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**NET CHANGE IN FUND BALANCE** 3,295,741

**FUND BALANCE - BEGINNING** 24,028,150

**FUND BALANCE - ENDING** \$ 27,323,891

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

**HEMET UNIFIED SCHOOL DISTRICT  
BUILDING FUND  
(MEASURE T)**

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

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***NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***

The accounting policies of the Hemet Unified School District's (the District) Building Fund (Measure T) 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.

**Financial Reporting Entity**

The financial statements include only the Building Fund of the Hemet Unified School District used to account for Measure T projects. This Fund was established to account for the expenditures of general obligation bonds issued under the Measure T. These financial statements are not intended to present fairly the financial position and results of operations of the Hemet Unified School District in compliance with accounting principles generally accepted in the United States of America.

**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.

**Basis of Accounting**

The Building Fund is 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 balance reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources.

**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. 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  
(MEASURE T)**

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

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**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.

**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.

**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**

**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.

**HEMET UNIFIED SCHOOL DISTRICT  
BUILDING FUND  
(MEASURE T)**

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

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**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.

	Amortized Cost	Fair Value
Deposits with Riverside County Treasurer	\$ 29,526,562	\$ 29,440,935

**General Authorizations**

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

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
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
Joint Powers Authority Pools	N/A	None	None

**HEMET UNIFIED SCHOOL DISTRICT  
BUILDING FUND  
(MEASURE T)**

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

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**Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Pool.

**Weighted Average Maturity**

The District monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. Information about the weighted average maturity of the District's portfolio is presented in the following schedule:

Investment Type	Amortized Cost	Fair Value	Weighted Average Days To Maturity
Riverside County Investment Pool	\$ 29,526,562	\$ 29,440,935	515

**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 investment in the County Pool is not required to be rated, nor has it been rated as of June 30, 2013.

Investment Type	Fair Value	Minimal Legal Rating	Fitch's Rating as of Year End AAA/V1
Riverside County Investment Pool	\$ 29,440,935	*	\$ 29,440,935

\* Not required to be rated.

**NOTE 3 - ACCOUNTS RECEIVABLE**

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

Interest	\$ 23,977
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**HEMET UNIFIED SCHOOL DISTRICT  
BUILDING FUND  
(MEASURE T)**

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

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***NOTE 4 - ACCOUNTS PAYABLE***

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

Vendor payables	\$ 60,653
Capital outlay	<u>2,165,916</u>
	<u><u>\$ 2,226,569</u></u>

***NOTE 5 - FUND BALANCES***

Fund balances at June 30, 2013, consisted of the following:

Restricted	
Capital projects	<u><u>\$ 27,323,891</u></u>

***NOTE 6 - INTERFUND TRANSACTIONS***

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

Interfund payable balance at June 30, 2013, consisted of the following:

Due to other funds - General Fund	<u><u>\$ 79</u></u>
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The balance of \$79 due to the General Fund from the Building Fund resulted from reimbursement of project costs.

**Operating Transfers**

Interfund transfer balance at June 30, 2013, consisted of the following:

The County School Facilities Fund transferred to the Building Fund for reimbursement of State funded building costs.	<u><u>\$ 12,551,577</u></u>
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**HEMET UNIFIED SCHOOL DISTRICT  
BUILDING FUND  
(MEASURE T)**

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

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***NOTE 7 - COMMITMENTS AND CONTINGENCIES***

As of June 30, 2013, the Building Fund (Measure T) has the following commitments with respect to unfinished capital projects:

<u>Capital Project</u>	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
Acacia Middle School Modernization	\$ 17,371,986	07/2015
Hemet High School Moderization Phase 2	983,929	06/2014
Hemet High School Moderization Phase 3	3,061,000	09/2014
Hemet High School Misc. Projects	203,306	06/2014
Idyllwild Access Ramp	50,961	12/2013
Whittier Modernization	14,800	TBD
	<u>\$ 21,685,982</u>	

**Litigation**

The District is not currently a party to any legal proceedings.

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*SUPPLEMENTARY INFORMATION*

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**HEMET UNIFIED SCHOOL DISTRICT  
BUILDING FUND  
(MEASURE T)**

**SCHEDULE OF LONG-TERM OBLIGATIONS  
JUNE 30, 2013**

**General Obligation Bonds**

The changes in the District's general obligation bonded debt during the year consisted of the following:

	Balance Beginning of Year	Additions	Deductions	Balance End of Year	Due in One Year	Current Year Accrued Interest	Prior Year Accrued Interest
2006 General Obligation Bonds, Series A	\$ 56,780,000	\$ -	\$ 1,150,000	\$ 55,630,000	\$ 1,220,000	\$ 1,024,152	\$ 1,043,902
2006 General Obligation Bonds, Series B	38,255,000	-	650,000	37,605,000	685,000	785,250	799,156
	<u>\$ 95,035,000</u>	<u>\$ -</u>	<u>\$ 1,800,000</u>	<u>\$ 93,235,000</u>	<u>\$ 1,905,000</u>	<u>\$ 1,809,402</u>	<u>\$ 1,843,058</u>
2010 Qualified School Construction BAN	\$ 25,000,000	\$ -	\$ -	\$ 25,000,000	\$ -	\$ 671,875	\$ -
	<u>\$ 25,000,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,000,000</u>	<u>\$ -</u>	<u>\$ 671,875</u>	<u>\$ -</u>

**Bonded Debt**

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2012	Issued	Capital Appreciation	Redeemed	Bonds Outstanding June 30, 2013
3/1/07	8/1/37	4.00% - 5.75%	\$ 60,000,000	\$ 56,780,000	\$ -	\$ -	\$ 1,150,000	\$ 55,630,000
3/4/08	8/1/38	4.50% - 5.25%	40,000,000	38,255,000	-	-	650,000	37,605,000
			<u>\$ 100,000,000</u>	<u>\$ 95,035,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,800,000</u>	<u>\$ 93,235,000</u>

**HEMET UNIFIED SCHOOL DISTRICT  
BUILDING FUND  
(MEASURE T)**

**SCHEDULE OF LONG-TERM OBLIGATIONS  
JUNE 30, 2013**

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**Election 2006, Series A General Obligation Bonds**

In March 2007, the District issued \$60,000,000 of the 2006 General Obligation Bonds, Series A. The bonds mature on August 1, 2037, with interest yields ranging from 4.00 to 5.75 percent. The proceeds from the sale of the bonds will be used to finance the acquisition and construction of new schools, classrooms, and facilities, and to repair existing schools. At June 30, 2013, the principal balance outstanding was \$55,630,000 and unamortized premium and issuance costs were \$829,058 and \$509,003, respectively.

The bonds mature through 2038 as follows:

Fiscal Year	Principal Including Accreted Interest to Date	Current Interest	Total
2014	\$ 1,220,000	\$ 2,457,965	\$ 3,677,965
2015	1,300,000	2,396,190	3,696,190
2016	1,385,000	2,319,862	3,704,862
2017	1,465,000	2,247,946	3,712,946
2018	1,540,000	2,184,184	3,724,184
2019-2023	8,710,000	9,842,745	18,552,745
2024-2028	10,725,000	7,598,007	18,323,007
2029-2033	13,185,000	5,070,582	18,255,582
2034-2038	16,100,000	1,871,998	17,971,998
Total	\$ 55,630,000	\$ 35,989,479	\$ 91,619,479



**HEMET UNIFIED SCHOOL DISTRICT  
BUILDING FUND  
(MEASURE T)**

**SCHEDULE OF LONG-TERM OBLIGATIONS  
JUNE 30, 2013**

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**Election 2006, Series B General Obligation Bonds**

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

The bonds mature through 2039 as follows:

Fiscal Year	Principal Including Accreted Interest to Date	Current Interest	Total
2014	\$ 685,000	\$ 1,884,600	\$ 2,569,600
2015	720,000	1,851,275	2,571,275
2016	760,000	1,816,075	2,576,075
2017	805,000	1,775,944	2,580,944
2018	845,000	1,732,631	2,577,631
2019-2023	4,995,000	7,955,231	12,950,231
2024-2028	6,525,000	6,501,913	13,026,913
2029-2033	8,520,000	4,633,581	13,153,581
2034-2038	11,140,000	2,141,313	13,281,313
2039	2,610,000	65,250	2,675,250
Total	\$ 37,605,000	\$ 30,357,813	\$ 67,962,813

**HEMET UNIFIED SCHOOL DISTRICT  
BUILDING FUND  
(MEASURE T)**

**SCHEDULE OF LONG-TERM OBLIGATIONS  
JUNE 30, 2013**

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**Bond Anticipation Notes**

In July 2010, the District issued the 2010 Qualified School Construction Bond Anticipation Notes in the amount of \$25,000,000. The notes mature July 2015, with an interest rate of 5.375 percent. The notes were issued for the purpose of financing the acquisition and construction of educational facilities and projects. The notes will be refunded through the issuance of General Obligation Bonds which were approved by the voters of the District at an election held on November 7, 2006, which approved the issuance of up to \$149,000,000 principal amount of General Obligation Bonds. The balance of the 2010 General Obligation Bond Anticipation Notes outstanding at June 30, 2013, was \$25,000,000 and unamortized discount and issuance costs were \$200,000 and \$193,963, respectively.

The bonds mature through 2016 as follows:

<u>Fiscal Year</u>	Principal		<u>Total</u>
	<u>Including Accreted Interest to Date</u>	<u>Current Interest</u>	
2014	\$ -	\$ 1,343,750	\$ 1,343,750
2015	-	1,343,750	1,343,750
2016	25,000,000	671,875	25,671,875
Total	<u>\$ 25,000,000</u>	<u>\$ 3,359,375</u>	<u>\$ 28,359,375</u>

**HEMET UNIFIED SCHOOL DISTRICT  
BUILDING FUND  
(MEASURE T)**

**RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED  
FINANCIAL STATEMENTS  
JUNE 30, 2013**

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There were no adjustments to the Unaudited Actual General Obligation Bond Fund, which required reconciliation to the audited financial statements at June 30, 2013.

**HEMET UNIFIED SCHOOL DISTRICT  
BUILDING FUND  
(MEASURE T)**

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

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***NOTE 1 - PURPOSE OF SCHEDULES***

**Schedule of Long-Term Obligations**

This schedule provides a debt repayment schedule associated with the bond proceeds received through issuance of Building Fund Election 2006, Measure T obligations.

**Reconciliation of Annual Financial Report With Audited Financial Statements**

This schedule provides the information necessary to reconcile the fund balance of the Building Fund (Measure T) reported on the Unaudited Actual Financial Report to the audited financial statements.

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***INDEPENDENT AUDITORS' REPORT***

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Governing Board and  
Citizens Oversight Committee  
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 accompanying financial statements of the Hemet Unified School District (the District) Building Fund (Measure T), and the related notes of the financial statements as of and for the year ended June 30, 2013, and have issued our report thereon dated December 20, 2013.

As discussed in Note 1, the financial statements present only the Building Fund specific to Measure T, and are not intended to present fairly the financial position and changes in financial position of Hemet Unified School District in conformity with accounting principles generally accepted in the United States of America.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Hemet Unified School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hemet Unified School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hemet Unified School District's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be, significant deficiencies or material weaknesses. 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 Building Fund (Measure T) financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Varrink, Tin, Day & Co., LLP

Rancho Cucamonga, California  
December 20, 2013

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

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**HEMET UNIFIED SCHOOL DISTRICT  
BUILDING FUND  
(MEASURE T)**

**FINANCIAL STATEMENT FINDINGS  
JUNE 30, 2013**

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None reported.

**HEMET UNIFIED SCHOOL DISTRICT  
BUILDING FUND  
(MEASURE T)**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2013**

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

**HEMET UNIFIED SCHOOL DISTRICT**

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**2006 GENERAL OBLIGATION BONDS  
MEASURE T  
PERFORMANCE AUDIT**

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**JUNE 30, 2013**

**HEMET UNIFIED SCHOOL DISTRICT  
BUILDING FUND  
(MEASURE T)**

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JUNE 30, 2013**

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## INDEPENDENT AUDITORS' REPORT ON PERFORMANCE

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

We were engaged to conduct a performance audit of the Hemet Unified School District (the District), Measure T funds for the year ended June 30, 2013.

We conducted this performance audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusion based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives.

Our audit was limited to the objectives listed within the report which includes determining the District's compliance with the performance requirements as referred to in Proposition 39 and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution. Management is responsible for the District's compliance with those requirements.

In planning and performing our performance audit, we obtained an understanding of the District's internal control in order to determine if the internal controls were adequate to help ensure the District's compliance with the requirements of Proposition 39 and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

The results of our tests indicated that the District expended Measure T funds only for the specific projects approved by the voters, in accordance with Proposition 39 and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution.

*Vavrinek, Trine, Day & Co., LLP*

Rancho Cucamonga, California  
December 20, 2013

**HEMET UNIFIED SCHOOL DISTRICT  
BUILDING FUND  
(MEASURE T)**

**JUNE 30, 2013**

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***AUTHORITY FOR ISSUANCE***

The Measure T Bonds are issued pursuant to the Constitution and laws of the State of California (the State), including the provisions of Chapters 1 and 1.5 of Part 10 of the California Education Code, and other applicable provisions of law. The Bonds are authorized to be issued by a resolution adopted by the Board of Supervisors of the County on June 13, 2009 (the Resolution), pursuant to a request of the District made by a resolution adopted by the Board of Education of the District on March 25, 2009.

The District received authorization at an election held on November 7, 2006, to issue bonds of the District in an aggregate principal amount not to exceed \$149,000,000 to finance specific construction and renovation projects approved by eligible voters within the District. The proposition required approval by at least 55 percent of the votes cast by eligible voters within the District (the 2006 Authorization). The Bonds represent the first and second series of the authorized bonds to be issued under the 2006 Authorization.

***PURPOSE OF ISSUANCE***

The net proceeds of the bonds and any other series of general obligation bonds issued under the Authorization will be used for the purpose specified in the District bond proposition submitted at the Election, which include the health and safety improvements, update technology, and build new schools.

"To improve the quality of education, upgrade and renovate existing schools throughout the District, make health and safety improvements, update technology, build new schools to relieve student overcrowding and maintain small class sizes, and make the District eligible for \$90,000,000 in State matching grants, shall Hemet Unified School District issue \$149,000,000 of bonds at legal interest rates, with spending annually reviewed by an independent citizens' oversight committee, and no money for administrative salaries."

***AUTHORITY FOR THE AUDIT***

On November 7, 2000, California voters approved Proposition 39, the Smaller Classes, Safer Schools and Financial Accountability Act. Proposition 39 amended portions of the California Constitution to provide for the issuance of general obligation bonds by school districts, community college districts, or county offices of education, "for the construction, reconstruction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of rental property for school facilities", upon approval by 55 percent of the electorate. In addition to reducing the approval threshold from two-thirds to 55 percent, Proposition 39 and the enacting legislation (AB 1908 and AB 2659) requires the following accountability measures as codified in Education Code sections 15278-15282:

1. Requires that the proceeds from the sale of the bonds be used only for the purposes specified in Article XIII A, Section 1(b)(3)(C) of the California Constitution, and not for any other purpose, including teacher and administrator salaries and other school operating expenses.
2. The school district must list the specific school facilities projects to be funded in the ballot measure, and must certify that the governing board has evaluated safety, class size reduction and information technology needs in developing the project list.
3. Requires the school district to appoint a citizen's oversight committee.

**HEMET UNIFIED SCHOOL DISTRICT  
BUILDING FUND  
(MEASURE T)**

**JUNE 30, 2013**

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4. Requires the school district to conduct an annual independent financial audit and performance audit in accordance with the *Government Auditing Standards* issued by the Comptroller General of the United States of the bond proceeds until all of the proceeds have been expended.
5. Requires the school district to conduct an annual independent performance audit to ensure that the funds have been expended only on the specific projects listed.

***OBJECTIVES OF THE AUDIT***

1. Determine whether expenditures charged to the Building Fund have been made in accordance with the bond project list approved by the voters through the approval of Measure T.
2. Determine whether salary transactions, charged to the Building Fund were in support of Measure T and not for District general administration or operations.

***SCOPE OF THE AUDIT***

The scope of our performance audit covered the period of July 1, 2012 to June 30, 2013. The population of expenditures tested included all object and project codes associated with the bond projects. The propriety of expenditures for capital projects and maintenance projects funded through other State or local funding sources, other than proceeds of the bonds, were not included within the scope of the audit. Expenditures incurred subsequent to June 30, 2013, were not reviewed or included within the scope of our audit or in this report.

***PROCEDURES PERFORMED***

We obtained the general ledger and the project expenditure reports prepared by the District for the period July 1 2012 through June 30, 2013, for the Building Fund (Measure T). Within the fiscal year audited, we obtained the actual invoices and other supporting documentation for a sample of expenditures to ensure compliance with the requirements of Article XIII A, Section 1(b)(3)(C) of the California Constitution and Measure T as to the approved bond projects list. We performed the following procedures:

1. We selected a sample of expenditures for the period starting July 1, 2012 and ending June 30, 2013, and reviewed supporting documentation to ensure that such funds were properly expended on the specific projects listed in the ballot text.
2. Our sample included 80 transactions totaling \$7,949,454. This represents 85 percent of the total expenditures of \$9,358,579, including expenditures related to transferred funds.
3. We verified that funds from the Building Fund (Measure T) were generally expended for the construction, renovation, furnishing and equipping of District facilities constituting authorized bond projects.

***CONCLUSION***

The results of our tests indicated that, in all significant respects, the Hemet Unified School District has properly accounted for the expenditures held in the Building Fund (Measure T) and that such expenditures were made for authorized Bond projects.

**HEMET UNIFIED SCHOOL DISTRICT  
BUILDING FUND  
(MEASURE T)**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2013**

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None reported.