

HEMET UNIFIED SCHOOL DISTRICT

**2002 GENERAL OBLIGATION BONDS
FINANCIAL AND PERFORMANCE AUDITS**

JUNE 30, 2008

HEMET UNIFIED SCHOOL DISTRICT

BUILDING FUND

FINANCIAL STATEMENT REPORT

JUNE 30, 2008

**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 election 2002 portion of the Building Fund of the Hemet Unified School District (the "District"), as of the year ended June 30, 2008, 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 election 2002 portion of the Building Fund and do not purport to, and do not, present fairly the financial position of the District as of June 30, 2008, 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 election 2002 portion of the Building Fund of the District at June 30, 2008, 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
September 2, 2008

**HEMET UNIFIED SCHOOL DISTRICT
BUILDING FUND**

**BALANCE SHEET
JUNE 30, 2008**

ASSETS

Investments	\$	-
Accounts receivable		-
Due from Capital Facilities Fund		-
Due from County School Facilities Fund		-
Total Assets	\$	-

FUND EQUITY

Fund balance		
Undesignated	\$	-
Total Liabilities and Fund Equity	\$	-

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, 2008**

REVENUES	
Other local revenues	\$ -
Total Revenues	<u>-</u>
EXPENDITURES	
Facilities acquisition and construction	1,028,679
Total Expenditures	<u>1,028,679</u>
EXCESS OF EXPENDITURES OVER REVENUES	(1,028,679)
FUND BALANCE, BEGINNING OF YEAR	<u>1,028,679</u>
FUND BALANCE, END OF YEAR	<u><u>\$ -</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, 2008**

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.

Financial Reporting Entity

The audited financial statements includes only the election 2002 portion of 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, May 2004, May 2005, and January 2006. 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.

Fund Accounting

The operations of the election 2002 portion 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

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 obligations, which is recognized when due.

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, 2008**

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.

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.

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.

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 during the reporting period. Actual results could differ from those estimates.

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 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
BUILDING FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 2 - LONG-TERM OBLIGATIONS

Summary

A schedule of changes in long-term obligations for the year ended June 30, 2008, is shown below:

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008	Due in One Year
General obligation bonds	\$ 56,370,000	\$ -	\$ 1,490,000	\$ 54,880,000	\$ 1,675,000

2002 General Obligation Bonds, Series A

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds Outstanding June 30, 2008
				Outstanding July 1, 2007	Issued	Redeemed	
2002	2027	1.70 - 5.05	\$ 23,000,000	\$ 20,885,000	\$ -	\$ 635,000	\$ 20,250,000

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

Year Ending June 30,	Principal	Interest	Total
2009	\$ 665,000	\$ 942,228	\$ 1,607,228
2010	695,000	918,926	1,613,926
2011	730,000	893,076	1,623,076
2012	770,000	864,374	1,634,374
2013	805,000	833,259	1,638,259
2014-2018	4,685,000	3,602,042	8,287,042
2019-2023	5,960,000	2,334,764	8,294,764
2024-2027	5,940,000	656,128	6,596,128
Total	\$ 20,250,000	\$ 11,044,797	\$ 31,294,797

**HEMET UNIFIED SCHOOL DISTRICT
BUILDING FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

2002 General Obligation Bonds, Series B

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2007	Issued	Redeemed	Bonds Outstanding June 30, 2008
2003	2028	1.00 - 4.25	\$ 15,000,000	\$ 13,940,000	\$ -	\$ 420,000	\$ 13,520,000

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

Year Ending June 30,	Principal	Interest	Total
2009	\$ 435,000	\$ 513,680	\$ 948,680
2010	455,000	493,186	948,186
2011	470,000	478,193	948,193
2012	495,000	464,305	959,305
2013	515,000	448,898	963,898
2014-2018	2,930,000	1,966,831	4,896,831
2019-2023	3,655,000	1,355,890	5,010,890
2024-2028	4,565,000	502,456	5,067,456
Total	\$ 13,520,000	\$ 6,223,439	\$ 19,743,439

2002 General Obligation Bonds, Series C

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2007	Issued	Redeemed	Bonds Outstanding June 30, 2008
2004	2029	4.00 - 5.00	\$ 10,000,000	\$ 9,640,000	\$ -	\$ 245,000	\$ 9,395,000

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

Year Ending June 30,	Principal	Interest	Total
2009	\$ 265,000	\$ 442,778	\$ 707,778
2010	280,000	429,152	709,152
2011	295,000	414,777	709,777
2012	310,000	399,653	709,653
2013	325,000	383,778	708,778
2014-2018	1,875,000	1,690,740	3,565,740
2019-2023	2,345,000	1,215,698	3,560,698
2024-2028	3,005,000	564,875	3,569,875
2029	695,000	17,375	712,375
Total	\$ 9,395,000	\$ 5,558,826	\$ 14,953,826

**HEMET UNIFIED SCHOOL DISTRICT
BUILDING FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

2002 General Obligation Bonds, Series D

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds Outstanding June 30, 2008
				Outstanding July 1, 2007	Issued	Redeemed	
2005	2030	3.50 - 5.00	\$ 6,000,000	\$ 5,905,000	\$ -	\$ 150,000	\$ 5,755,000

The general obligation bonds Series D mature through 2030 as follows:

Year Ending June 30,	Principal	Interest	Total
2009	\$ 160,000	\$ 237,142	\$ 397,142
2010	165,000	229,018	394,018
2011	175,000	220,518	395,518
2012	185,000	212,905	397,905
2013	195,000	206,255	401,255
2014-2018	1,095,000	912,725	2,007,725
2019-2023	1,345,000	669,213	2,014,213
2024-2028	1,670,000	354,288	2,024,288
2029-2030	765,000	33,797	798,797
Total	\$ 5,755,000	\$ 3,075,861	\$ 8,830,861

2002 General Obligation Bonds, Series E

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds Outstanding June 30, 2008
				Outstanding July 1, 2007	Issued	Redeemed	
2006	2031	4.00 - 6.50	\$ 6,000,000	\$ 6,000,000	\$ -	\$ 40,000	\$ 5,960,000

The general obligation bonds Series E mature through 2031 as follows:

Year Ending June 30,	Principal	Interest	Total
2009	\$ 150,000	\$ 255,575	\$ 405,575
2010	160,000	245,500	405,500
2011	170,000	234,775	404,775
2012	175,000	224,875	399,875
2013	185,000	216,800	401,800
2014-2018	1,040,000	965,300	2,005,300
2019-2023	1,295,000	732,822	2,027,822
2024-2028	1,625,000	432,008	2,057,008
2029-2031	1,160,000	77,518	1,237,518
Total	\$ 5,960,000	\$ 3,385,173	\$ 9,345,173

**HEMET UNIFIED SCHOOL DISTRICT
BUILDING FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 3 - COMMITMENTS AND CONTINGENCIES

As of June 30, 2008, 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>
None remaining.	None remaining.

HEMET UNIFIED SCHOOL DISTRICT

**2002 GENERAL OBLIGATION BONDS
AGREED-UPON PROCEDURES REPORT**

JUNE 30, 2008



**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, May 2004, May 2005, and January 2006 issuances for the General Obligation Bond funds for the period of July 1, 2007 through June 30, 2008, 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, Series B Bonds were authorized at an issuance of \$15,000,000, Series C Bonds were authorized at an issuance of \$10,000,000, Series D Bonds were authorized at an issuance of \$6,000,000, and Series E Bonds were authorized at an issuance of \$6,000,000 for the purpose of financing the addition and modernization of school facilities.
2. Total expenditures from July 1, 2007, through June 30, 2008, were \$1,028,679.
3. An analysis of expenditures is as follows:

Expenditures

Capital outlay	<u>\$ 1,028,679</u>
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4. Available unspent funds from the bond as of June 30, 2008, are:

Balance as of July 1, 2007	\$ 1,028,679
Total expenditures	(1,028,679)
Balance as of June 30, 2008	<u>\$ -</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 ten highest and ten 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 the multi-prime contractor for more than ten 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 2002 General Obligation Bonds did not have proceeds during 2007-08.
3. Our review of the expenditures for the period of July 1, 2007 through June 30, 2008, 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 payments for the months of September and October 2007. We found that payments were being withheld in excess of the established ten-day period. 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.

Vaurinek, Trine, Day & Co., LLP

Rancho Cucamonga, California

September 2, 2008

HEMET UNIFIED SCHOOL DISTRICT

**SCHEDULE OF DISBURSEMENTS BY SITE
FOR THE PERIOD ENDING JUNE 30, 2008**

Hamilton

\$ 1,028,679