



**MENIFEE UNION ELEMENTARY
SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2010

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

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FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Governing Board
Menifee Union Elementary School District
Menifee, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Menifee Union Elementary School District (the District) as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2009-10*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Menifee Union Elementary School District, as of June 30, 2010, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in the Notes to the basic financial statements, the State of California continues to suffer the effects of a recessionary economy, which directly impacts the funding requirements of the State of California to the K-12 educational community.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2010, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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* and should be considered in conjunction with this report in considering the results of our audit.

The required supplementary information, such as management's discussion and analysis on pages 4 through 11 and budgetary comparison information on page 47, is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information listed in the table of contents, including the Schedule of Expenditures of Federal Awards which is required by U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California

October 29, 2010



MENIFEE UNION SCHOOL DISTRICT

30205 Menifee Road, Menifee, California 92584
(951) 672-1851 • FAX (951) 672-1385

Superintendent
Linda C. Callaway, Ed.D.

This section of Menifee Union Elementary School District's (the District) (audited) annual financial report presents our discussion and analysis of the Menifee Union Elementary School District's financial performance during the fiscal year that ended on June 30, 2010. Please read it in conjunction with the District's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

The financial statements presented herein include all of the activities of the Menifee Union Elementary School District and its component units using the integrated approach as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34.

The *Government-Wide Financial Statements* present the financial picture of the District from the economic resources measurement focus using the accrual basis of accounting. These statements include all assets of the District (including capital assets), as well as all liabilities (including long-term obligations). Additionally, certain eliminations have occurred as prescribed by the statement in regards to interfund activity, payables, and receivables.

The *Fund Financial Statements* include a variety of funds to include the General Fund, Special Reserve Funds, Capital Projects Funds, and Debt Service Funds.

The *Governmental Activities* are prepared using the current financial resources measurement focus and modified accrual basis of accounting.

The *Fiduciary Activities* are prepared using the economic resources management focus and the accrual basis of accounting.

Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach.

The Primary unit of the government is the Menifee Union Elementary School District.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2010

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Assets and the Statement of Activities

The *Statement of Net Assets* and the *Statement of Activities* report information about the District as a whole and about its activities. These statements include *all* assets and liabilities of the District using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's *net assets* and changes in them. Net assets are the difference between assets and liabilities, one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net assets are one indicator of whether its *financial health* is improving or deteriorating.

The relationship between revenues and expenses is the District's *operating results*. Since the Board's responsibility is to provide services to our students and not to generate profit as commercial entities do, one must consider other factors when evaluating the *overall health* of the District. The quality of the education and the safety of our schools will likely be important components in this evaluation.

In the *Statement of Net Assets* and the *Statement of Activities*, we report the District activities as follows:

Governmental Activities - All of the District's services are reported in this category. This includes the education of kindergarten through grade eight students, the operation of child development activities, food service, and the on-going effort to improve and maintain buildings and sites. Property taxes, State aid, user fees, interest income, Federal, State and local grants, as well as general obligation bonds and Community Facilities Districts, finance these activities.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

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

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010

THE DISTRICT AS TRUSTEE

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or *fiduciary*, for funds held on behalf of others, like our funds for associated student body activities and Joint Community Facilities Districts. The District's fiduciary activities are reported in the *Statement of Fiduciary Net Assets*. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE DISTRICT AS A WHOLE

Net Assets

The District's net assets were \$194.9 million for the fiscal year ended June 30, 2010. Of this amount, \$10.4 million was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the governing school board's ability to use those net assets for day-to-day operations. Our analysis below focuses on the net assets (Table 1) and change in net assets (Table 2) of the District's governmental activities.

TABLE 1

	Governmental Activities	
	2010	2009
ASSETS		
Current and other assets	\$ 52,009,394	\$ 66,581,670
Capital assets	200,057,392	194,971,415
Total Assets	<u>252,066,786</u>	<u>261,553,085</u>
LIABILITIES		
Current liabilities	2,942,308	5,123,078
Long-term obligations	54,266,383	54,437,475
Total Liabilities	<u>57,208,691</u>	<u>59,560,553</u>
NET ASSETS		
Invested in capital assets, net of related debt	165,713,403	163,657,796
Restricted	18,720,652	28,233,168
Unrestricted	10,424,040	10,101,568
Total Net Assets	<u>\$ 194,858,095</u>	<u>\$ 201,992,532</u>

The \$10.4 million in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010

Changes in Net Assets

The results of this year's operations for the District as a whole are reported in the *Statement of Activities* on page 13.

TABLE 2

	Governmental Activities	
	2010	2009
Revenues		
Program revenues:		
Charges for services	\$ 1,119,052	\$ 1,217,111
Operating grants and contributions	10,554,048	7,118,534
Capital grants and contributions	-	17,919,654
General revenues:		
State revenue limit sources	34,885,580	39,570,353
Property and other taxes	7,712,491	7,776,494
Other general revenues	10,945,250	16,877,712
Total Revenues	<u>65,216,421</u>	<u>90,479,858</u>
Expenses		
Instruction-related	51,948,556	52,111,567
Pupil services	5,909,989	5,827,676
Administration	4,723,395	4,367,774
Plant services	6,148,056	6,811,140
Other	3,620,862	4,668,062
Total Expenses	<u>72,350,858</u>	<u>73,786,219</u>
Change in Net Assets	<u>\$ (7,134,437)</u>	<u>\$ 16,693,639</u>

Governmental Activities

As reported in the *Statement of Activities* on page 13 the cost of all of our governmental activities this year was \$72.4 million. Program revenues supported this amount by contributing revenues from charges for services and operating grants and contributions totaling \$11.7 million. We paid the remainder with General Revenues including State revenue limit sources, Property and other taxes, as well as, other general revenues.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2010

In Table 3, we have presented the cost of each of the District's largest functions – instruction, instruction-related activities, other pupil services, general administration, plant services, facilities acquisition and construction, interest on long-term obligations and other services. As discussed above, net cost shows the financial burden that was placed on the District's taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

TABLE 3

	Total Net Cost of Services	
	2010	2009
Instruction	\$ 39,590,875	\$ 23,900,421
Instruction-related activities	4,792,426	5,391,847
Other pupil services	2,589,419	2,956,719
General administration	4,105,290	3,925,748
Plant services	6,134,290	6,784,774
Facility acquisition and construction	608,587	1,557,659
Interest on long-term obligations and other	2,856,871	3,013,752
Total	<u>\$ 60,677,758</u>	<u>\$ 47,530,920</u>

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$49.2 million as detailed below:

TABLE 4

	Fund Balance at June 30,	
	2010	2009
General Fund	\$ 11,011,635	\$ 13,246,096
Building Fund	18,415,533	21,994,307
Capital Facilities Fund	14,086,020	17,952,559
Child Development Fund	54,707	53,850
Cafeteria Fund	902,654	743,517
Deferred Maintenance Fund	-	102,484
Special Reserve Fund for Other than Capital Outlay	38,452	37,971
Capital Project for Blended Component Units Fund	2,162,338	4,935,154
Bond Interest and Redemption Fund	1,888,842	1,798,216
COP Debt Service Fund	592,240	592,266
Total	<u>\$ 49,152,421</u>	<u>\$ 61,456,420</u>

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2010

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted in 2010. (A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report on page 47.)

COMMENTS ON MAJOR FUNDS

Each of the District's major funds is discussed below.

- The General Fund is the chief operating fund of the District used to account for ordinary operations. All transactions except for those required or permitted by law to be in another fund are accounted for in this fund.
- The Building Fund (Fund 21) exists to account separately for the proceeds from the sale of bonds. These funds were used to complete middle school #3 which opened in 2009-2010. The funds were also used to begin construction of elementary school #9 (Canyon Hills). The District continues to explore further land acquisition in order to begin construction on elementary school #10.
- The Capital Facilities Fund (Fund 25) is used primarily to account separately for monies received from fees levied on developers to meet pupil housing needs. Home construction within the District boundaries was minimal for the year ending June 30, 2010.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2010, the District had \$200.1 million in a broad range of capital assets, including land, buildings, and equipment.

TABLE 5

(Net of Accumulated Depreciation)

	Governmental Activities	
	2010	2009
Land and construction in process	\$ 42,534,760	\$ 71,591,280
Buildings and improvements/site improvements	154,713,816	120,036,226
Equipment	2,808,816	3,343,909
Total	<u>\$ 200,057,392</u>	<u>\$ 194,971,415</u>

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2010

Long-Term Obligations

At the end of this year, the District had \$54.3 million in long-term obligations outstanding versus \$54.4 million last year. Those long-term obligations consisted of the following:

	Governmental Activities	
	2010	2009
General obligation bonds (financed with property taxes)	\$ 47,476,443	\$ 47,240,476
Certificates of participation	6,600,000	6,910,000
Accumulated vacation	130,125	168,174
Capital leases	59,815	118,825
Total	<u>\$ 54,266,383</u>	<u>\$ 54,437,475</u>

The District's general obligation bond rating with Fitch is A+, and with S&P it is an A-. The State limits the amount of general obligation bonds that districts can issue to five percent of the assessed value of all taxable property within the district's boundaries. The District's outstanding general obligation bonds of \$47.5 million are below this statutorily-imposed limit.

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2009-2010

- District's Academic Performance Index (API) increased 18 points to 828. Individual school site API scores increased between zero and 49 points. Only the new middle school has an API score (baseline, or its first) below 800 (772). The District has two elementary schools nearing 900. All but one school in the District improved their previous years score and that one school remained at the previous year's level.
- The District met both English Language Arts (ELA) and Adequate Yearly Progress (AYP) Federal targets.
- The District's only Title I school met both ELA and Mathematic targets.
- The District opened its third new middle school.
- The District began construction on elementary school #9.
- The District has responded to the State's continuing financial woes while maintaining required reserves and fiscal solvency.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2010

FACTORS BEARING ON THE DISTRICT'S FUTURE

Although the budget for 2010-2011 will inevitably be changing, following are some of the key budget assumptions made at time of budget development:

- The District anticipates a two percent (2%) enrollment growth. As of September 21, 2010, the enrollment is 8,911 pupils, 53 higher than the 2009-2010 California Basic Educational Data System (CBEDS) count.
- The District is in its second year on a modified-traditional instructional calendar that is more closely aligned with the high school district. Preliminary attendance data shows an increase from historical rates.
- The 2010-2011 school year outlook continues the Spartan outlook on school finance. As of September 21, 2010, the State of California has yet to pass a State Budget. It is hoped that when passed the State Budget will adequately address solutions to the historical budget imbalance.
- The current recession and the State's financial difficulties continue to be the biggest questions surrounding the fiscal position of the District. At least 88 percent of the District's General Fund is dependent on State Aid.
- The State continues to experience cash shortages and continues to pass their problems onto the District by deferring (delaying) revenue payments to the District.
- The District's funded revenue limit for 2010-2011 is estimated to be \$4,726 based upon the Governor's May Revision. This represents a \$1,349 revenue loss per average daily attendance (ADA), or 22.2 percent loss. This is the second year that the State will only pay the District seventy-eight cents (\$0.78) on each one dollar (\$1.00) owed.
- Flexibility provisions continue in 2010-2011 but are scheduled to expire in 2011-2012 and 2012-2013 absent any further Legislative actions. The most significant of these is the expiration of the K-3 Class Size Reduction (CSR) Program flexibility in June 2012.
- Housing development appears to be beginning within the District albeit on a slower rate and smaller scale than in years past. It is anticipated that by 2011-2012, these new housing units will begin to impact District enrollment.
- The employee groups continue to work cooperatively with the District to address the unprecedented cuts to educational funding.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, pupils, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any further financial information, contact the Assistant Superintendent, Business Services, Menifee Union School District, 30205 Menifee Road, Menifee, California 92584 or email at rwolfe@menifeeUSD.org.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

STATEMENT OF NET ASSETS JUNE 30, 2010

	Governmental Activities
ASSETS	
Deposits and investments	\$ 39,581,881
Receivables	11,576,338
Stores inventories	15,271
Costs of issuance	835,904
Capital Assets:	
Land and construction in process	42,534,760
Other capital assets	184,220,659
Less: Accumulated depreciation	<u>(26,698,027)</u>
Total Capital Assets	<u>200,057,392</u>
Total Assets	<u>252,066,786</u>
 LIABILITIES	
Accounts payable	1,904,731
Accrued interest	921,239
Deferred revenue	116,338
Long-term Obligations:	
Current portion	706,468
Noncurrent portion	<u>53,559,915</u>
Total Long-term Obligations	<u>54,266,383</u>
Total Liabilities	<u>57,208,691</u>
 NET ASSETS	
Invested in capital assets, net of related debt	165,713,403
Restricted for:	
Debt service	1,559,843
Capital projects	15,707,526
Educational programs	495,922
Other activities	957,361
Unrestricted	<u>10,424,040</u>
Total Net Assets	<u>\$ 194,858,095</u>

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

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2010

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction	\$ 46,073,336	\$ -	\$ 6,482,461	\$ (39,590,875)
Instruction-related activities:				
Supervision of instruction	1,716,600	-	1,082,794	(633,806)
Instructional library, media, and technology	608,817	-	-	(608,817)
School site administration	3,549,803	-	-	(3,549,803)
Pupil services:				
Home-to-school transportation	1,507,434	162,057	162,391	(1,182,986)
Food services	2,247,751	865,127	1,401,583	18,959
All other pupil services	2,154,804	-	729,412	(1,425,392)
General administration:				
Data processing	702,626	-	-	(702,626)
All other general administration	4,020,769	50,201	567,904	(3,402,664)
Plant services	6,148,056	-	13,766	(6,134,290)
Facility acquisition and construction	608,587	-	-	(608,587)
Interest on long-term obligations	2,818,809	-	-	(2,818,809)
Other outgo	193,466	41,667	113,737	(38,062)
Total Governmental Activities	\$ 72,350,858	\$ 1,119,052	\$ 10,554,048	(60,677,758)
General revenues and subventions:				
				4,986,005
Property taxes, levied for general purposes				2,045,038
Property taxes, levied for debt service				34,885,580
State aid not restricted to specific purposes				572,184
Interest and investment earnings				681,448
Contributions from property owners				10,373,066
Miscellaneous				
Total General Revenues and Subventions				53,543,321
Change in Net Assets				(7,134,437)
Net Assets - Beginning				201,992,532
Net Assets - Ending				\$ 194,858,095

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

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

GOVERNMENTAL FUNDS BALANCE SHEET JUNE 30, 2010

	General Fund	Building Fund	Capital Facilities Fund
ASSETS			
Deposits and investments	\$ 10,789,784	\$ 18,956,365	\$ 4,046,130
Receivables	11,392,524	50,517	64,785
Due from other funds	238,005	-	10,000,000
Stores inventories	-	-	-
Total Assets	\$ 22,420,313	\$ 19,006,882	\$ 14,110,915
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 1,292,340	\$ 591,349	\$ 5,669
Due to other funds	10,000,000	-	19,226
Deferred revenue	116,338	-	-
Total Liabilities	11,408,678	591,349	24,895
FUND BALANCES			
Reserved for:			
Revolving cash	5,000	-	-
Stores inventories	-	-	-
Restricted programs	495,922	-	-
General reserve	4,511,883	-	-
Unreserved:			
Designated	5,998,830	18,415,533	14,086,020
Total Fund Balance	11,011,635	18,415,533	14,086,020
Total Liabilities and Fund Balances	\$ 22,420,313	\$ 19,006,882	\$ 14,110,915

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

Non-Major Governmental Funds	Total Governmental Funds
\$ 5,789,602	\$ 39,581,881
68,512	11,576,338
-	10,238,005
15,271	15,271
<u>\$ 5,873,385</u>	<u>\$ 61,411,495</u>

\$ 15,373	\$ 1,904,731
218,779	10,238,005
-	116,338
<u>234,152</u>	<u>12,259,074</u>

-	5,000
15,271	15,271
-	495,922
-	4,511,883
<u>5,623,962</u>	<u>44,124,345</u>
<u>5,639,233</u>	<u>49,152,421</u>
<u>\$ 5,873,385</u>	<u>\$ 61,411,495</u>

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS JUNE 30, 2010

Total Fund Balance - Governmental Funds		\$ 49,152,421
Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of capital assets is	\$ 226,755,419	
Accumulated depreciation is	<u>(26,698,027)</u>	
Total Capital Assets		200,057,392
Expenditures relating to issuance of debt of next fiscal year were recognized on the modified accrual basis, but should not be recognized on the accrual basis. Cost of issuances are capitalizable and amortized over the life of the debt.		835,904
In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when it is incurred.		(921,239)
Long-term obligations, including general obligation bonds, are not due and payable in the current period and, therefore, are not reported as obligations in the funds.		
Long-term obligations at year-end consist of:		
General obligation bonds	46,018,724	
Unamortized premium	1,457,719	
Certificates of participation	6,600,000	
Capital lease obligations	59,815	
Accumulated vacation	<u>130,125</u>	
Total Long-Term Obligations		<u>(54,266,383)</u>
Total Net Assets - Governmental Activities		<u><u>\$ 194,858,095</u></u>

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

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2010**

	General Fund	Building Fund
REVENUES		
Revenue limit sources	\$ 39,871,585	\$ -
Federal sources	3,886,897	-
Other State sources	9,779,455	-
Other local sources	4,434,994	265,964
Total Revenues	57,972,931	265,964
EXPENDITURES		
Current		
Instruction	40,800,551	-
Instruction-related activities:		
Supervision of instruction	1,614,820	-
Instructional library, media, and technology	614,387	-
School site administration	3,563,325	-
Pupil services:		
Home-to-school transportation	1,358,078	-
Food services	417	-
All other pupil services	2,125,489	-
General administration:		
Data processing	703,881	-
All other general administration	3,422,920	-
Plant services	6,112,950	-
Facility acquisition and construction	5,984	3,844,738
Other outgo	109,523	-
Debt service		
Principal	59,010	-
Interest and other	-	-
Total Expenditures	60,491,335	3,844,738
Excess (Deficiency) of Revenues Over Expenditures	(2,518,404)	(3,578,774)
Other Financing Sources (Uses)		
Transfers in	200,000	-
Other sources	83,943	-
Transfers out	-	-
Other uses	-	-
Net Financing Sources (Uses)	283,943	-
NET CHANGE IN FUND BALANCES	(2,234,461)	(3,578,774)
Fund Balance - Beginning	13,246,096	21,994,307
Fund Balance - Ending	\$ 11,011,635	\$ 18,415,533

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

Capital Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 39,871,585
-	1,483,875	5,370,772
-	499,061	10,278,516
913,323	3,316,087	8,930,368
913,323	5,299,023	64,451,241
-	185,378	40,985,929
-	103,024	1,717,844
-	-	614,387
-	-	3,563,325
-	-	1,358,078
-	2,256,400	2,256,817
-	29,870	2,155,359
-	-	703,881
24,476	568,334	4,015,730
-	32,307	6,145,257
4,317,043	2,778,448	10,946,213
-	-	109,523
-	395,000	454,010
-	2,410,335	2,410,335
4,341,519	8,759,096	77,436,688
(3,428,196)	(3,460,073)	(12,985,447)
131,329	569,672	901,001
-	681,448	765,391
(569,672)	(331,329)	(901,001)
-	(83,943)	(83,943)
(438,343)	835,848	681,448
(3,866,539)	(2,624,225)	(12,303,999)
17,952,559	8,263,458	61,456,420
\$ 14,086,020	\$ 5,639,233	\$ 49,152,421

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2010

Total Net Change in Fund Balances - Governmental Funds \$ (12,303,999)

Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures, however, for governmental activities, those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities.

This is the amount by which capital outlays exceed depreciation expense in the period.

Capital outlays	\$ 10,337,626	
Depreciation expense	<u>(5,251,438)</u>	5,086,188

Loss on disposal of capital assets is reported in the government-wide statement of net assets, but is not recorded in the governmental funds. (211)

In the statement of activities, certain operating expenses - compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Amounts paid were more than amounts earned by \$38,049 during the year. 38,049

Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term obligations in the statement of net assets and does not affect the statement of activities:

General obligation bonds	85,000
Certificates of participation	310,000
Capital lease obligations	59,010

Under the modified basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. This adjustment combines the net changes of the following balances:

Amortization of debt premium	54,573	
Amortization of cost of issuance	<u>(29,854)</u>	
Combined adjustment		24,719

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

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE DISTRICT-WIDE STATEMENT OF ACTIVITIES (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2010

Interest on long-term obligations in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is the result of two factors.

Change in accrued interest	\$ (57,653)	
Accretion on the capital appreciation General Obligation Bonds	<u>(375,540)</u>	
		<u>\$ (433,193)</u>
Change in Net Assets of Governmental Activities		<u><u>\$ (7,134,437)</u></u>

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

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2010**

	<u>Agency Funds</u>
ASSETS	
Deposits and investments	<u>\$ 14,444,497</u>
LIABILITIES	
Due to bond holders	\$ 14,289,038
Due to other agencies	76,738
Due to student groups	<u>78,721</u>
Total Liabilities	<u>\$ 14,444,497</u>

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

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Menifee Union Elementary School District (the District) was organized December 7, 1951, under the laws of the State of California. The District operates under a locally-elected five-member Board form of government and provides educational services to grades K - 8 as mandated by the State and/or Federal agencies. The District operates eight elementary schools, three middle schools, and a preschool.

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For the Menifee Union Elementary School District, this includes general operations, food service, and student related activities of the District.

Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. For financial reporting purposes the component units have a financial and operational relationship which meets the reporting entity definition criteria of the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and thus are included in the financial statements of the District. The component units, although legally separate entities, are reported in the financial statements as if they were part of the District's operations because the governing board of the component units is essentially the same as the governing board of the District and because their purpose is to finance the construction of facilities to be used for the benefit of the District.

The Menifee Union Elementary School District Public Financing Authority (the Authority) is a joint exercise of powers authority organized and existing under laws of the State of California, and Joint Exercise of Powers Agreement. The Authority was formed to issue bonds under the Marks-Roos Local Bond Pooling Act of 1985. The Authority was formed for the purpose of financing school facilities.

Pursuant to the Mello-Roos Community Facilities Act of 1982, the District established Community Facilities Districts (CFDs) 94-1, 99-1 Zone 1, 2, Improvement Zone A, 2002-1 through 5, 2003-1 through 4, 2004-2 through 5, 2005-2, 2006-1, 2006-3, and 2006-4. Each CFD is a legally constituted governmental entity formed for the purpose of financing special capital projects. The CFDs were authorized, at special elections, to finance school facilities and in certain cases to fund improvements for the benefit of other governmental agencies including a Parks and Recreation District and a Water District.

Financial Presentation

For financial presentation purposes, the Authority and the CFDs financial activity has been blended with the financial data of the District. The financial statements present the construction and acquisition bond proceeds within the Capital Project for Blended Component Units Fund. The debt service reserve fund proceeds are presented in an agency fund.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Basis of Presentation - Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The District's funds are grouped into two broad fund categories: governmental and fiduciary.

Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major and non-major governmental funds:

Major Governmental Funds

General Fund The General Fund is the chief operating fund for all districts. It is used to account for the ordinary operations of a district. All transactions except those required or permitted by law to be in another fund are accounted for in this fund.

Building Fund The Building Fund exists primarily to account separately for proceeds from the sale of bonds (*Education Code* Section 15146) and may not be used for any purposes other than those for which the bonds were issued.

Capital Facilities Fund The Capital Facilities Fund is used primarily to account separately for monies received from fees levied on developers or other agencies as a condition of approving a development (*Education Code* Sections 17620-17626). Expenditures are restricted to the purposes specified in *Government Code* Sections 65970-65981 or to the items specified in agreements with the developer (*Government Code* Section 66006).

Non-Major Governmental Funds

Special Revenue Funds The Special Revenue Funds are established to account for the proceeds from specific revenue sources (other than trusts or for major capital projects) that are restricted to the financing of particular activities:

Child Development Fund The Child Development Fund is used to account separately for Federal, State, and local revenues to operate child development programs and is to be used only for expenditures for the operation of child development programs.

Cafeteria Fund The Cafeteria Fund is used to account separately for Federal, State, and local resources to operate the food service program (*Education Code* Sections 38090-38093) and is used only for those expenditures authorized by the governing board as necessary for the operation of the District's food service program (*Education Code* Sections 38091 and 38100).

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Deferred Maintenance Fund The Deferred Maintenance Fund is used to account separately for State apportionments and the District's contributions for deferred maintenance purposes (*Education Code* Sections 17582-17587) and for items of maintenance approved by the State Allocation Board, except for State apportionments which, as a result of Senate Bill 4 of the 2009-2010 Third Extraordinary Session (SBX3 4), may be used for any educational purpose.

Special Reserve Fund for Other Than Capital Outlay Projects The Special Reserve Fund for Other Than Capital Outlay Projects is used primarily to provide for the accumulation of General Fund monies for general operating purposes other than for capital outlay (*Education Code* Section 42840).

Capital Project Funds The Capital Project Funds are established to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

Capital Project for Blended Component Units Fund The Capital Project Fund for Blended Component Units Fund is used to account for capital projects financed by Mello-Roos Community Facilities Districts and similar entities that are considered blended component units of the District under generally accepted accounting principles (GAAP).

Debt Service Funds The Debt Service Funds are established to account for the accumulation of resources for and the payment of principal and interest on general long-term debt.

Bond Interest and Redemption Fund The Bond Interest and Redemption Fund is used for the repayment of bonds issued for a district (*Education Code* Sections 15125-15262).

COP Debt Service Fund The COP Debt Service Fund is used to account for the interest and redemption of principal of Certificates of Participation.

Fiduciary Funds The Fiduciary Funds reporting focuses on net assets and changes in net assets. The District maintains fiduciary funds that are classified as agency funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurements of results of operations. The District's agency funds include:

Debt Service Special Tax Bonds is an Agency fund used to account for the resources accumulated for the repayment of special tax debt of the Authority and CFDs described under financial reporting entity.

Joint CFD Fund is an Agency fund used to account for certain proceeds of Community Facilities District (CFD) bond issuances not available to finance school improvements.

Associated Student Body Fund is an Agency fund used to account for student body activities.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Basis of Accounting - Measurement Focus

Government-Wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

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

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other activities result from special revenue funds and the restrictions on their net asset use.

Fund Financial Statements Fund Financial Statements report detailed information about the District. The focus of governmental financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

Governmental Funds All governmental funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balance reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds on a modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

Fiduciary Funds Fiduciary Funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Revenues - Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. Generally, available is defined as collectible within 90 days. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to state-aid apportionments, the California Department of Education has defined available for districts as collectible within one year.

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

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

Deferred Revenue Deferred revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met or when the District has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Certain grants received before the eligibility requirements are met, are recorded as deferred revenue. On the governmental fund financial statements, receivables that will not be collected within the available period are also recorded as deferred revenue.

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, and typically paid within 90 days. Principal and interest on general long-term obligations, which has not matured, are recognized when paid in the governmental funds as expenditures. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds but are recognized in the entity-wide statements.

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Investments

Investments held at June 30, 2010, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

Store Inventories

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

Capital Assets and Depreciation

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

When purchased, such assets are recorded as expenditures in the governmental funds and capitalized in the government-wide financial statement of net assets. The valuation bases for general capital assets are historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are capitalized at estimated fair market value on the date donated.

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 20 to 50 years; improvements, 5 to 50 years; equipment, 2 to 15 years.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental activities columns of the statement of net assets, except for the net residual amounts due between governmental activities, which are presented as internal balances.

Compensated Absences

Compensated absences are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide statement of net assets. For governmental funds, the current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year-end that have not yet been paid with expendable available financial resources. These amounts are reported in the fund from which the employees who have accumulated leave are paid.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave. Credit for unused sick leave is applicable to all certificated employees and is determined by dividing the number of unused sick days by the number of base service days required to complete the last school year, if employed full-time.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds.

However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases, and long-term loans are recognized as liabilities in the governmental fund financial statements when due.

Deferred Issuance Costs, Premiums, and Discounts

Long-term obligations are reported as liabilities in the government-wide statement of net assets for governmental activities.

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method.

Fund Balance Reserves and Designations

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund equity indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for revolving cash accounts, stores inventories, and legally restricted grants and entitlements.

Designations of fund balances consist of that portion of the fund balance that has been designated (set aside) by the governing board to provide for specific purposes or uses. Fund balance designations have been established for economic uncertainties, and other purposes.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The government-wide financial statements report \$18,720,652 of restricted net assets.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Estimates

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

Budgetary Data

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

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for. For budget purposes, on behalf payments have not been included as revenue and expenditures as required under generally accepted accounting principles.

Property Tax

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

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

New Accounting Pronouncements

In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The requirements of this Statement are effective for the financial statements for periods beginning after June 15, 2010. Early implementation is encouraged.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2010, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 39,581,881
Fiduciary funds	14,444,497
Total Deposits and Investments	<u>\$ 54,026,378</u>

Deposits and investments as of June 30, 2010, consist of the following:

Investments	\$ 53,772,101
Cash on hand and in banks	249,277
Cash in revolving	5,000
Total Deposits and Investments	<u>\$ 54,026,378</u>

Policies and Practices

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

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.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

General Authorizations

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

<u>Authorized Investment Type</u>	<u>Maximum Remaining Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment In One Issuer</u>
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

Authorized Under Debt Agreements

Investments of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code. These provisions allow for the acquisition of investment agreements with maturities of up to 30 years.

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.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

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	Fair Value	Maturity Date/ Average Maturity In Days
Riverside County Investment Pool	\$ 36,528,225	372
First American Prime Obligation Fund Class Y	16,728,111	33
FSA Investment Agreement	592,240	9/1/2025
Total	\$ 53,848,576	

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 investments with the Riverside County Investment Pool have been rated AAA/V1+ by Fitch Ratings. The First American Treasury Money Market Mutual Funds are rated Aaa by Moody's Investor Service. The Financial Security Assurance (FSA) Investment Agreement is not required to be rated. However, the investment agreement is insured by FSA who is rated Aaa by Moody's Investor Service.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2010, the District had no balances exposed to custodial credit risk. All balances were fully insured.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 3 - RECEIVABLES

Receivables at June 30, 2010, consisted of intergovernmental grants, entitlements, interest, and other local sources. All receivables are considered collectible in full.

	General Fund	Building Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total
Federal Government					
Categorical aid	\$ 968,733	\$ -	\$ -	\$ 54,629	\$ 1,023,362
State Government					
Apportionment	8,321,766	-	-	-	8,321,766
Categorical aid	127,656	-	-	7,653	135,309
CSR	594,837	-	-	-	594,837
Lottery	259,759	-	-	-	259,759
Local Government					
Interest	13,468	50,517	33,444	2,125	99,554
Santa Rosa Academy	989,169	-	-	-	989,169
Other Local Sources	117,136	-	31,341	4,105	152,582
Total	<u>\$ 11,392,524</u>	<u>\$ 50,517</u>	<u>\$ 64,785</u>	<u>\$ 68,512</u>	<u>\$ 11,576,338</u>

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

	Balance July 1, 2009	Additions	Deductions	Balance June 30, 2010
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 35,268,693	\$ 2,803,359	\$ -	\$ 38,072,052
Construction in process	36,322,587	5,625,846	37,485,725	4,462,708
Total Capital Assets Not Being Depreciated	<u>71,591,280</u>	<u>8,429,205</u>	<u>37,485,725</u>	<u>42,534,760</u>
Capital Assets Being Depreciated				
Site improvements	6,071,920	1,785,275	-	7,857,195
Buildings and improvements	132,822,447	37,459,555	-	170,282,002
Furniture and equipment	5,946,678	149,316	14,532	6,081,462
Total Capital Assets Being Depreciated	<u>144,841,045</u>	<u>39,394,146</u>	<u>14,532</u>	<u>184,220,659</u>
Total Capital Assets	<u>186,943,722</u>	<u>47,823,351</u>	<u>37,500,257</u>	<u>226,755,419</u>
Less Accumulated Depreciation				
Site improvements	778,594	375,575	-	1,154,169
Buildings and improvements	18,079,548	4,191,664	-	22,271,212
Furniture and equipment	2,602,768	684,199	14,321	3,272,646
Total Accumulated Depreciation	<u>21,460,910</u>	<u>5,251,438</u>	<u>14,321</u>	<u>26,698,027</u>
Governmental Activities Capital Assets, Net	<u>\$ 194,971,415</u>	<u>\$ 42,571,913</u>	<u>\$ 37,485,936</u>	<u>\$ 200,057,392</u>

The District closed Menifee Elementary School as of June 30, 2008. Menifee Union Elementary School District has the intention of reopening the school; however, a date to reopen has not been determined. The book value of the asset at June 30, 2010 is \$5,024,715, and at June 30, 2009 was \$5,202,890.

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
Instruction	\$ 5,093,895
Home-to-school transportation	157,543
Total Depreciation Expenses Governmental Activities	<u>\$ 5,251,438</u>

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 5 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund receivable and payable balances at June 30, 2010, between major and non-major governmental funds are as follows:

Due To	Due From			Total
	General Fund	Capital Facilities Fund	Non-Major Governmental Funds	
General Fund	\$ -	\$ 19,226	\$ 218,779	\$ 238,005
Capital Facilities Fund	10,000,000	-	-	10,000,000
Total	<u>\$ 10,000,000</u>	<u>\$ 19,226</u>	<u>\$ 218,779</u>	<u>\$ 10,238,005</u>

The General Fund borrowed from the Capital Facilities Fund to supplement cash flows.	\$ 10,000,000
The Capital Facilities Fund owes to the General Fund three percent of the developer fees collected for Administration (<i>Education Code</i> Section 17620).	19,226
The Cafeteria Fund owes to the General Fund for indirect costs rate charges.	17,470
The Child Development Fund owes to the General Fund for indirect costs.	1,309
The Capital Projects for Blended Component Unit Fund owes to the General Fund for administrative costs.	200,000
	<u>\$ 10,238,005</u>

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

Operating Transfers

Interfund transfers for the year ended June 30, 2010, consisted of the following:

Transfer To	Transfer From		Total
	Capital Facilities Fund	Non-Major Governmental Funds	
General Fund	\$ -	\$ 200,000	\$ 200,000
Capital Facilities Fund	-	131,329	131,329
Non-Major Governmental Funds	569,672	-	569,672
Total	\$ 569,672	\$ 331,329	\$ 901,001

The Capital Projects for Blended Component Units Fund transferred to the General Fund to reimburse the General Fund for Administration costs.	\$ 200,000
The Capital Facilities Fund transferred to the Debt Service Fund to fund debt service payments on Certificates of Participation.	569,672
The Non-Major Capital Projects for Blended Component Units Fund transferred to the Capital Facilities Fund to reimburse project costs.	131,329
Total	\$ 901,001

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2010, consisted of the following:

	General Fund	Building Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total
Vendor payables	\$ 675,958	\$ -	\$ 5,400	\$ 9,949	\$ 691,307
State Apportionment	462,658	-	-	-	462,658
Salaries and benefits	153,724	-	-	5,424	159,148
Construction payables	-	591,349	269	-	591,618
Total	\$ 1,292,340	\$ 591,349	\$ 5,669	\$ 15,373	\$ 1,904,731

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 7 - DEFERRED REVENUE

Deferred revenue at June 30, 2010, consists of the following:

	General Fund
Federal financial assistance	<u>\$ 116,338</u>

NOTE 8 - LONG-TERM OBLIGATIONS

Summary

The changes in the District's long-term obligations during the year consist of the following:

	Balance Beginning of Year	Addition	Deductions	Balance End of Year	Due in One Year
General obligation bonds	\$ 47,240,476	\$ 375,540	\$ 139,573	\$ 47,476,443	\$ 354,573
Certificates of Participation					
2004 Refunding Series	6,910,000	-	310,000	6,600,000	320,000
Accumulated vacation	168,174	-	38,049	130,125	-
Capital leases	118,825	-	59,010	59,815	31,895
Total Long-Term Obligations	<u>\$ 54,437,475</u>	<u>\$ 375,540</u>	<u>\$ 546,632</u>	<u>\$ 54,266,383</u>	<u>\$ 706,468</u>

General Obligation Bonds are paid from the Bond Interest and Redemption fund from tax revenues collected from the property owners within the boundaries of the District. Certificates of Participations are paid from the COP Debt Service Fund from resources of the Capital Facilities Fund including developer fees. The Accumulated Vacation liability is liquidated in the fund which the employee who earned the vacation is paid from. Capital lease payments come from the unrestricted resources of the General Fund.

Series 2002 A

In June 2003, the District issued current and appreciation bonds, 2002 Election General Obligation Bond, Series A, in the amount of \$9,429,203 (accreting to \$9,930,000) in order to raise money for modernization, reconstruction, and new construction.

Series 2002 B

In May 2006, the District issued current interest and capital appreciation bonds, 2002 Series B, General Obligation Bonds, in the amount of \$5,069,720 (accreting to \$5,840,000) in order to raise money for modernization, reconstruction, and new construction.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Series 2008 A

In an election held February 5, 2008, the District voters authorized bonds in the amount of \$31,460,000. In August 2008, the District issued General Obligation Bonds, Series A in the amount of \$15,730,000, 50 percent of the authorized amount. The bonds were issued for the purpose of financing the acquisition and construction of new District facilities.

Series 2008 B and C

In February 2009, the District issued General Obligation Bonds, Series B and C in the aggregate amount of \$15,730,000. This amount was the remaining amount on the voter authorized amount and exhausts the voter authorized bonds of the February 2008 authorization of \$31,460,000. The bonds include current interest bond maturities totaling \$7,975,000 with interest rates ranging from 3 percent to 5.25 percent, and capital accretion type bonds with denominational amounts totaling \$4,655,000 (maturing to \$25.6 million) with accretion rates ranging from 6.8 percent to 10.509 percent. The bonds are issued for the purpose of financing acquisition and construction of new district facilities.

Series	Fiscal Year of Maturities	Interest and Accretion Rates	Original Issue	Bonds/Premium			Bonds/Premium	
				Outstanding Beginning of Year	Accreted Interest Addition	Redeemed or Amortized	Outstanding End of Year	Due in One Year
2002A	2027-2028	2.37-7.40%	\$ 9,429,203	\$ 9,166,594	\$ 39,650	\$ 25,000	\$ 9,181,244	\$ 25,000
2002 B	2008-2029	3.00-4.27%	5,069,720	5,101,590	18,014	60,000	5,059,604	100,000
	Premiums on Issuance		-	156,283	-	7,814	148,469	7,814
2008 A	2013-2034	4.00-5.50%	15,730,000	15,730,000	-	-	15,730,000	-
2008 B & C	2011-2040	3.00-10.51%	15,730,000	15,730,000	317,876	-	16,047,876	175,000
	Premiums on Issuance		-	1,356,009	-	46,759	1,309,250	46,759
			<u>\$45,958,923</u>	<u>\$47,240,476</u>	<u>\$ 375,540</u>	<u>\$ 139,573</u>	<u>\$47,476,443</u>	<u>\$ 354,573</u>

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

Debt Service Requirements to Maturity

Series 2002 A

Fiscal Year	Principal Including Accreted Interest to Date	Accreted Interest	Current Interest to Maturity	Total
2011	\$ 25,000	\$ -	\$ 385,005	\$ 410,005
2012	75,000	-	383,536	458,536
2013	100,000	-	300,661	400,661
2014	150,000	-	376,193	526,193
2015	162,422	62,578	373,474	598,474
2016-2020	1,593,822	221,178	1,802,381	3,617,381
2021-2025	3,595,000	-	1,295,971	4,890,971
2026-2028	3,480,000	-	273,750	3,753,750
Total	\$ 9,181,244	\$ 283,756	\$ 5,190,971	\$ 14,655,971

Series 2002 B

Fiscal Year	Principal Including Accreted Interest to Date	Accreted Interest	Current Interest to Maturity	Total
2011	\$ 100,000	\$ -	\$ 213,270	\$ 313,270
2012	100,000	-	209,770	309,770
2013	125,000	-	205,676	330,676
2014	125,000	-	200,989	325,989
2015	125,000	-	196,145	321,145
2016-2020	575,000	-	911,131	1,486,131
2021-2025	1,015,000	-	755,024	1,770,024
2026-2030	2,894,604	695,396	379,438	3,969,438
Total	\$ 5,059,604	\$ 695,396	\$ 3,071,443	\$ 8,826,443

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

Series 2008 A

Fiscal Year	Principal Including Accreted Interest to Date	Current Interest to Maturity	Total
2011	\$ -	\$ 849,900	\$ 849,900
2012	-	849,900	849,900
2013	25,000	849,400	874,400
2014	75,000	847,400	922,400
2015	100,000	843,900	943,900
2016-2020	1,250,000	4,083,688	5,333,688
2021-2025	2,825,000	3,567,125	6,392,125
2026-2030	5,080,000	2,512,950	7,592,950
2031-2034	6,375,000	743,187	7,118,187
Total	\$ 15,730,000	\$ 15,147,450	\$ 30,877,450

Series 2008 B and C

Fiscal Year	Principal Including Accreted Interest to Date	Accreted Interest	Current Interest to Maturity	Total
2011	\$ 175,000	\$ -	\$ 536,906	\$ 711,906
2012	-	-	534,281	534,281
2013	-	-	534,281	534,281
2014	-	-	534,281	534,281
2015	100,000	-	532,781	632,781
2016-2020	1,225,000	-	2,567,578	3,792,578
2021-2025	3,100,000	-	2,113,954	5,213,954
2026-2030	6,475,000	-	937,172	7,412,172
2031-2035	1,490,593	11,409,407	-	12,900,000
2036-2040	3,482,283	16,017,717	-	19,500,000
Total	\$ 16,047,876	\$ 27,427,124	\$ 8,291,234	\$ 51,766,234

Certificates of Participation

In September 2004, the District through the Riverside County Schools Finance Corporation, issued Refunding Certificates of Participation in the amount of \$8,135,000. Interest rates on the certificates range from 2.00 percent to 4.60 percent. The certificates mature through 2026.

The certificates are issued to refinance on an advance basis the outstanding 1996 lease obligation of the District and the related certificates of participation.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

At June 30, 2010, the principal balance outstanding was \$6,600,000.

Fiscal Year	Principal	Interest	Total
2011	\$ 320,000	\$ 262,365	\$ 582,365
2012	330,000	251,790	581,790
2013	345,000	239,978	584,978
2014	355,000	227,728	582,728
2015	370,000	214,809	584,809
2016-2020	2,045,000	848,103	2,893,103
2021-2025	2,515,000	365,611	2,880,611
2026	320,000	7,360	327,360
Total	<u>\$ 6,600,000</u>	<u>\$ 2,417,744</u>	<u>\$ 9,017,744</u>

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2010, amounted to \$130,125.

Capital Leases

The District's liability for capital lease obligations is summarized below:

	OME Portables	Kronos System	Total
Balance, June 30, 2009	\$ 57,600	\$ 72,800	\$ 130,400
Payments	14,400	49,538	63,938
Balance, June 30, 2010	<u>\$ 43,200</u>	<u>\$ 23,262</u>	<u>\$ 66,462</u>

Year Ending June 30,	Lease Payment
2011	\$ 37,662
2012	14,400
2013	14,400
Total	66,462
Less: Amount Representing Interest	6,647
Present Value of Minimum Lease Payments	<u>\$ 59,815</u>

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

NOTE 9 - NON OBLIGATORY DEBT

Community Facilities Districts (CFDs)

The special tax bonds issued by the Community Facilities District's and the Public Finance Authority (hereinafter referred to as the CFDs) are not obligations of the Menifee Union Elementary School District. The bonds, the interest thereon, and any premiums on the redemption of any of the bonds are not an indebtedness of the District, the State of California, or any of its political subdivisions. Neither the faith and credit nor the taxing power of the District is pledged to the payment of the bonds. The bonds are payable from proceeds of Net Special Taxes levied on property within the CFDs according to the rate and method of apportionment of special tax approved by the Board and the eligible landowner voters in the CFDs. The bonds are secured only by a first pledge of all revenues derived from the net special taxes and the monies deposited in certain funds held by the fiscal agent under the fiscal agent agreement. Therefore, the bonds are not included in the financial statements.

	Balance <u>End of Year</u>
Public Finance Authority	\$ 34,025,000
Special Tax Refunding Bonds	
CFD 94-1	11,315,000
CFD 99-1 Zone 1	4,910,000
CFD 99-1 Zone 2	5,445,000
CFD 99-1 Improvement Area A	965,000
CFD 2002-1	5,070,000
CFD 2002-3	4,135,000
CFD 2003-3	2,630,000
Special Tax Bonds	
CFD 2002-2	7,700,000
CFD 2002-4	2,225,000
CFD 2002-5	5,730,000
CFD 2003-1	2,150,000
CFD 2003-2	10,700,000
CFD 2003-4	2,440,000
CFD 2004-2	4,315,000
CFD 2004-3	3,865,000
CFD 2004-4	2,330,000
CFD 2004-5	4,400,000
CFD 2005-2	4,585,000
CFD 2006-3	2,005,000
Total	<u>\$ 120,940,000</u>

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 10 - FUND BALANCES

Fund balances with reservations/designations are composed of the following elements:

	General Fund	Building Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
Reserved					
Revolving cash	\$ 5,000	\$ -	\$ -	\$ -	\$ 5,000
Store inventories	-	-	-	15,271	15,271
Restricted programs	495,922	-	-	-	495,922
General reserve	4,511,883	-	-	-	4,511,883
Total Reserved	<u>5,012,805</u>	<u>-</u>	<u>-</u>	<u>15,271</u>	<u>5,028,076</u>
Unreserved					
Designated					
Economic uncertainties	1,773,259	-	-	-	1,773,259
Other designations	4,225,571	-	14,086,020	5,623,962	23,935,553
Total Designated	<u>5,998,830</u>	<u>-</u>	<u>14,086,020</u>	<u>5,623,962</u>	<u>25,708,812</u>
Undesignated					
Total Unreserved	<u>-</u>	<u>18,415,533</u>	<u>-</u>	<u>-</u>	<u>18,415,533</u>
Total Unreserved	<u>5,998,830</u>	<u>18,415,533</u>	<u>14,086,020</u>	<u>5,623,962</u>	<u>44,124,345</u>
Total	<u>\$ 11,011,635</u>	<u>\$ 18,415,533</u>	<u>\$ 14,086,020</u>	<u>\$ 5,639,233</u>	<u>\$ 49,152,421</u>

NOTE 11 - POSTEMPLOYMENT BENEFITS

The District provides postemployment health care benefits, in accordance with certain past District employment contracts. Currently, three employees meet those eligibility requirements. The District contributes 100 percent of the amount of premiums incurred by these retirees and their dependents. Expenditures for postemployment benefits are recognized on a pay-as-you-go basis, as premiums are paid. During the year, expenditures of \$35,404 were recognized for retirees' health care benefits.

NOTE 12 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft, damage and destruction of assets; errors and omissions; injuries to employees; life and health of employees; and natural disasters.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2010, the District contracted with Riverside Schools' Insurance Authority (RSIA) for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

Workers' Compensation

For fiscal year 2010, the District participated in the Western Riverside County Self-Insurance Program for Employees (WRCSIPE). The intent of the WRCSIPE is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the WRCSIPE. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate. Each participant pays its workers' compensation premium based on its individual rate.

NOTE 13 - EMPLOYEE RETIREMENT SYSTEM

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

CalSTRS

Plan Description

The District contributes to CalSTRS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7919 Folsom Blvd., Sacramento, California 95826.

Funding Policy

Active plan members are required to contribute 8.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2009-2010 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the fiscal years ending June 30, 2010, 2009, and 2008, were \$2,673,365, \$2,706,383, and \$2,699,807, respectively, and equal 100 percent of the required contributions for each year.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

CalPERS

Plan Description

The District contributes to the School Employer Pool under CalPERS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issue a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95811.

Funding Policy

Active plan members are required to contribute 7.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2009-2010 was 9.709 percent of covered payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2010, 2009, and 2008, were \$802,864, \$773,728, and \$745,364, respectively, and equal 100 percent of the required contributions for each year.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$1,382,695 (4.267 percent of annual payroll). This amount was reported in both State revenues and Instructional Expenditures within the General Fund. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budget amounts reported in the *General Fund - Budgetary Comparison Schedule*.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2010.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Federal and State Grants

The District received financial assistance from Federal and State agencies in the form of grants for categorical and construction. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2010.

Construction Commitments

As of June 30, 2010, the District had the following commitments with respect to the unfinished capital projects:

CAPITAL PROJECTS	Remaining Construction Commitment	Expected Date of Completion
Elementary School No. 9	\$ 11,770,346	June 2012

NOTE 15 - PARTICIPATION IN JOINT POWER AUTHORITIES

The District is a member of the Riverside Schools Insurance Authority (RSIA), Self Insurance Schools' of California III (SISC III), and the Protected Insurance Program for Schools (PIPS) joint powers authorities (JPA). The District pays an annual premium to the applicable entity for its health, workers' compensation, and property liability coverage. The relationships between the District and the JPA's are such that they are not component units of the District for financial reporting purposes.

These entities have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, fund transactions between the entities and the District are included in these statements. Audited financial statements are generally available from the respective entities.

The District has appointed one board member to the governing board of Riverside Schools' Insurance Authority.

During the year ended June 30, 2010, the District made payments of \$603,288 to Protected Insurance Program for Schools, \$335,976 to Riverside Schools' Insurance Authority and \$5,982,966 to Self Insurance Schools' of California III for insurance.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE 16 - FISCAL ISSUES RELATING TO BUDGET REDUCTIONS

The State of California continues to suffer the effects of a recessionary economy. California school districts are reliant on the State of California to appropriate the funding necessary to continue the level of educational services expected by the State constituency. With the implementation of education trailer bill Senate Bill 16 of the 2009-2010 Fourth Extraordinary Session (SBX4 16) (Chapter 23, Statutes of 2009), 25 percent of current year appropriations have now been deferred to a subsequent period, creating significant cash flow management issues for districts in addition to requiring substantial budget reductions, ultimately impacting the ability of California school districts to meet their goals for educational services.

REQUIRED SUPPLEMENTARY INFORMATION

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

GENERAL FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		Actual (GAAP Basis)	Variances -
	(GAAP Basis)			Positive
	Original	Final		(Negative) Final to Actual
REVENUES				
Revenue limit sources	\$ 44,969,324	\$ 39,839,502	\$ 39,871,585	\$ 32,083
Federal sources	2,424,987	3,886,228	3,886,897	669
Other State sources	7,886,304	7,405,938	9,779,455	2,373,517
Other local sources	4,490,210	4,771,218	4,434,994	(336,224)
Total Revenues¹	<u>59,770,825</u>	<u>55,902,886</u>	<u>57,972,931</u>	<u>2,070,045</u>
EXPENDITURES				
Current				
Certificated salaries	33,299,044	32,948,000	32,431,583	516,417
Classified salaries	9,242,702	9,110,422	9,065,630	44,792
Employee benefits	11,657,077	11,501,946	12,737,318	(1,235,372)
Books and supplies	1,970,598	2,188,032	1,813,342	374,690
Services and operating expenditures	4,978,767	5,218,845	4,350,580	868,265
Other outgo	(77,901)	(1,858)	(1,858)	-
Capital outlay	30,000	90,152	47,971	42,181
Debt service - principal	34,891	51,991	46,769	5,222
Total Expenditures¹	<u>61,135,178</u>	<u>61,107,530</u>	<u>60,491,335</u>	<u>616,195</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(1,364,353)</u>	<u>(5,204,644)</u>	<u>(2,518,404)</u>	<u>2,686,240</u>
Other Financing Sources (Uses)				
Transfers in	-	-	200,000	(200,000)
Other sources	-	83,943	83,943	-
Net Financing Sources (Uses)	<u>-</u>	<u>83,943</u>	<u>283,943</u>	<u>(200,000)</u>
NET CHANGE IN FUND BALANCES	<u>(1,364,353)</u>	<u>(5,120,701)</u>	<u>(2,234,461)</u>	<u>2,486,240</u>
Fund Balance - Beginning	<u>13,246,096</u>	<u>13,246,096</u>	<u>13,246,096</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 11,881,743</u>	<u>\$ 8,125,395</u>	<u>\$ 11,011,635</u>	<u>\$ 2,486,240</u>

¹On behalf payment of \$1,382,695 is included in the actual revenues and expenditures, but has not been included in the budgeted amounts.

SUPPLEMENTARY INFORMATION

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
ARRA: State Fiscal Stabilization Fund	84.394	25008	\$ 344,393
NCLB - Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	386,414
NCLB - Title I, ARRA, Part A, Basic Grants Low Income and Neglected	84.389	15005	85,874
Title II, Part A, Teacher Quality	84.367	14341	140,624
Title II, Part D, Enhancing Education Through Technology	84.318	14334	2,872
Title III, Immigrant Education Program	84.365	14346	13,023
Title III, Limited English Proficiency (LEP) Student Program	84.365	10084	134,842
Title IV, Part A, Drug-Free Schools	84.186	14347	29,425
Title V, Part A, Innovative Education Strategies	84.298A	13340	4,751
Title X, McKinney-Vento Homeless Assistance Grants	84.196	14332	978
Subtotal			<u>1,143,196</u>
Passed through CDE and Riverside Special Education Local Plan Area:			
Special Education Cluster :			
IDEA, Basic Local Assistance Entitlement, Part B, Section 611	84.027	13379	1,284,328
IDEA, Basic Local Assistance Entitlement, Part B, Section 611, Private School	84.027	10115	3,116
IDEA, ARRA Part B, Section 611, Basic Local Assistance	84.391	15003	971,387
IDEA, ARRA Part B, Section 611, Basic Local Assistance	84.391	15004	3,639
IDEA, Preschool Grants, Part B, Section 619	84.173	13430	52,242
IDEA, ARRA Part B, Section 619, Preschool Grants	84.392	15000	1,235
IDEA, Preschool Local Entitlement, Part B, Section 611	84.027A	13682	119,517
IDEA, ARRA Part B, Section 611, Preschool Local Entitlement	84.391	15002	79,014
IDEA, Preschool Staff Development, Part B, Section 619	84.173A	13431	1,163
Subtotal			<u>2,515,641</u>
Total U.S. Department of Education			<u>3,658,837</u>

See accompanying note to supplementary information.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Passed through California Department of Education:			
Child Nutrition Cluster:			
National School Lunch Program	10.555	13391	\$1,220,092
Especially Needy Breakfast	10.553	13526	84,980
Basic School Breakfast	10.553	13390	36,648
Food Distribution	10.555	13158	<u>142,155</u>
Total U.S. Department of Agriculture			<u>1,483,875</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through California Department of Health and Human Services:			
Medicaid Cluster:			
Medi-Cal Billing Option	93.778	10013	23,656
Medi-Cal Administrative Activities	93.778	10060	<u>57,275</u>
Total U.S. Department of Health and Human Services			<u>80,931</u>
Total Expenditures of Federal Awards			<u><u>\$5,223,643</u></u>

See accompanying note to supplementary information.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE

JUNE 30, 2010

ORGANIZATION

The Menifee Union Elementary School District (the District) was established on December 7, 1951, and consists of an area comprising approximately 56 square miles. The District operates eight elementary schools, three middle schools, and one preschool. There were no boundary changes during this year.

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Rita Peters	President	2011
Jerry Bowman	Vice President	2013
Randall T. Freeman	Clerk	2013
Robert O'Donnell	Member	2011
Ron Ulibarri	Member	2013

ADMINISTRATION

Linda C. Callaway, Ed.D.	Superintendent
Robert Wolfe	Assistant Superintendent, Business Services
Steve Kennedy	Assistant Superintendent, Personnel Services
Karen Valdes	Assistant Superintendent, Curriculum and Instruction
Jeanne Bargman	Director of Pupil Personnel Services
Pam Gillette	Director of Fiscal Services

See accompanying note to supplementary information.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2010**

	Revised Second Period Report	Amended Annual Report
ELEMENTARY		
Kindergarten	853	857
First through third	2,829	2,836
Fourth through sixth	2,786	2,790
Seventh and eighth	1,824	1,822
Home and hospital	2	1
Special education	202	207
Total Elementary	<u>8,496</u>	<u>8,513</u>

See accompanying note to supplementary information.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME FOR THE YEAR ENDED JUNE 30, 2010

<u>Grade Level</u>	<u>1982-83 Actual Minutes</u>	<u>Reduced 1982-83 Actual Minutes</u>	<u>1986-87 Minutes Requirement</u>	<u>Reduced 1986-87 Minutes Requirement</u>	<u>2009-10 Actual Minutes</u>	<u>Number of Days Multitrack Calendar</u>	<u>Status</u>
Kindergarten	31,500	30,625	36,000	35,000	38,700	180	Complied
Grades 1 - 3	50,750	49,340	50,400	49,000			
Grade 1					53,280	180	Complied
Grade 2					53,280	180	Complied
Grade 3					55,128	180	Complied
Grades 4 - 6	50,750	49,340	54,000	52,500			
Grade 4					55,128	180	Complied
Grade 5					55,128	180	Complied
Grade 6					57,414	180	Complied
Grades 7 - 8	50,750	49,340	54,000	52,500			
Grade 7					57,414	180	Complied
Grade 8					57,414	180	Complied

See accompanying note to supplementary information.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

Summarized below are the fund balance reconciliations between the Unaudited Actual Financial Report and the Audited Financial Statements.

	Capital Project for Blended Component Units Fund
	<u>Fund</u>
FUND BALANCE	
Balance, June 30, 2010, Unaudited Actuals	\$ 2,362,338
Increase in:	
Due to other funds	<u>(200,000)</u>
Balance, June 30, 2010, Audited Financial Statement	<u>\$ 2,162,338</u>

See accompanying note to supplementary information.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2010

	(Budget) 2011 ¹	2010	2009	2008
GENERAL FUND				
Revenues	\$ 55,457,703	\$ 57,972,931	\$ 63,974,880	\$ 64,018,012
Other sources	-	283,943	142,252	-
Total Revenues and Other Sources	55,457,703	58,256,874	64,117,132	64,018,012
Expenditures	58,355,304	60,491,335	62,062,636	63,441,795
Other uses and transfers out	-	-	-	350,000
Total Expenditures and Other Uses	58,355,304	60,491,335	62,062,636	63,791,795
INCREASE (DECREASE) IN FUND BALANCE	<u>\$ (2,897,601)</u>	<u>\$ (2,234,461)</u>	<u>\$ 2,054,496</u>	<u>\$ 226,217</u>
ENDING FUND BALANCE	<u>\$ 8,114,034</u>	<u>\$ 11,011,635</u>	<u>\$ 13,246,096</u>	<u>\$ 11,191,600</u>
AVAILABLE RESERVES²	<u>\$ 1,750,659</u>	<u>\$ 1,773,259</u>	<u>\$ 1,817,426</u>	<u>\$ 2,369,408</u>
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO³	<u>3.00%</u>	<u>3.00%</u>	<u>3.00%</u>	<u>3.80%</u>
LONG-TERM OBLIGATION	<u>\$ 53,559,915</u>	<u>\$ 54,266,383</u>	<u>\$ 54,437,475</u>	<u>\$ 21,841,166</u>
K-12 AVERAGE DAILY ATTENDANCE AT P-2	<u>8,650</u>	<u>8,496</u>	<u>8,304</u>	<u>8,386</u>

The General Fund balance has decreased by \$179,965 over the past two years. The fiscal year 2010-2011 budget projects a further decrease of \$2,897,601 (-26.3 percent). For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in two of the past three years but anticipates incurring an operating deficit during the 2010-2011 fiscal year. Total long-term obligations have increased by \$32,425,217 over the past two years.

Average daily attendance has increased by 110 over the past two years. Additional growth of 154 ADA is anticipated during fiscal year 2010-2011.

¹ Budget 2011 is included for analytical purposes only and has not been subjected to audit.

² Available reserves consist of all funds designated for economic uncertainty contained within the General Fund.

³ On behalf payment of \$1,382,695 has been excluded from the calculation of available reserves for the fiscal years ending June 30, 2010.

See accompanying note to supplementary information.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2010**

<u>Name of Charter School</u>	<u>Included in Audit Report</u>
Santa Rosa Charter School	No

See accompanying note to supplementary information.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2010**

	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
ASSETS			
Deposits and investments	\$ 49,077	\$ 858,752	\$ -
Receivables	7,850	60,563	-
Stores inventories	-	15,271	-
Total Assets	\$ 56,927	\$ 934,586	\$ -
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 911	\$ 14,462	\$ -
Due to other funds	1,309	17,470	-
Total Liabilities	2,220	31,932	-
Fund Balances:			
Reserved for:			
Stores inventories	-	15,271	-
Unreserved:			
Designated	54,707	887,383	-
Total Fund Balance	54,707	902,654	-
Total Liabilities and Fund Balances	\$ 56,927	\$ 934,586	\$ -

See accompanying note to supplementary information.

Special Reserve Fund for Other Than Capital Outlay Projects	Capital Project for Blended Component Units Fund	Bond Interest and Redemption Fund	COP Debt Service Fund	Total Non-Major Governmental Funds
\$ 38,353	\$ 2,362,338	\$ 1,888,842	\$ 592,240	\$ 5,789,602
99	-	-	-	68,512
-	-	-	-	15,271
<u>\$ 38,452</u>	<u>\$ 2,362,338</u>	<u>\$ 1,888,842</u>	<u>\$ 592,240</u>	<u>\$ 5,873,385</u>
\$ -	\$ -	\$ -	\$ -	\$ 15,373
-	200,000	-	-	218,779
-	200,000	-	-	234,152
-	-	-	-	15,271
38,452	2,162,338	1,888,842	592,240	5,623,962
<u>38,452</u>	<u>2,162,338</u>	<u>1,888,842</u>	<u>592,240</u>	<u>5,639,233</u>
<u>\$ 38,452</u>	<u>\$ 2,362,338</u>	<u>\$ 1,888,842</u>	<u>\$ 592,240</u>	<u>\$ 5,873,385</u>

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2010**

	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
REVENUES			
Federal sources	\$ -	\$ 1,483,875	\$ -
Other State sources	357,188	107,589	-
Other local sources	856	910,305	-
Total Revenues	358,044	2,501,769	-
EXPENDITURES			
Current			
Instruction	185,378	-	-
Instruction-related activities:			
Supervision of instruction	103,024	-	-
Pupil services:			
Food services	6,031	2,250,369	-
All other pupil services	29,870	-	-
General administration:			
All other general administration	19,118	92,263	-
Plant services	13,766	-	18,541
Facility acquisition and construction	-	-	-
Debt service			
Principal	-	-	-
Interest and other	-	-	-
Total Expenditures	357,187	2,342,632	18,541
Excess (Deficiency) of Revenues Over Expenditures	857	159,137	(18,541)
Other Financing Sources (Uses)			
Transfers in	-	-	-
Other sources	-	-	-
Transfers out	-	-	-
Other uses	-	-	(83,943)
Net Financing Sources (Uses)	-	-	(83,943)
NET CHANGE IN FUND BALANCES	857	159,137	(102,484)
Fund Balance - Beginning	53,850	743,517	102,484
Fund Balance - Ending	\$ 54,707	\$ 902,654	\$ -

See accompanying note to supplementary information.

Special Reserve Fund for Other Than Capital Outlay Projects	Capital Project for Blended Component Units Fund	Bond Interest and Redemption Fund	COP Debt Service Fund	Total Non-Major Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 1,483,875
-	-	34,284	-	499,061
481	308,084	2,061,958	34,403	3,316,087
481	308,084	2,096,242	34,403	5,299,023
-	-	-	-	185,378
-	-	-	-	103,024
-	-	-	-	2,256,400
-	-	-	-	29,870
-	456,953	-	-	568,334
-	-	-	-	32,307
-	2,778,448	-	-	2,778,448
-	-	85,000	310,000	395,000
-	195,618	1,920,616	294,101	2,410,335
-	3,431,019	2,005,616	604,101	8,759,096
481	(3,122,935)	90,626	(569,698)	(3,460,073)
-	-	-	569,672	569,672
-	681,448	-	-	681,448
-	(331,329)	-	-	(331,329)
-	-	-	-	(83,943)
-	350,119	-	569,672	835,848
481	(2,772,816)	90,626	(26)	(2,624,225)
37,971	4,935,154	1,798,216	592,266	8,263,458
\$ 38,452	\$ 2,162,338	\$ 1,888,842	\$ 592,240	\$ 5,639,233

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2010

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures and Changes in Fund Balance and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts represent Federal funds that have been recorded as revenues that have not been expended by June 30, 2010. The unspent balances are reported as legally restricted ending balances within the General Fund.

<u>Reconciliation of the Schedule of Expenditures of Federal Awards</u>	<u>CFDA No.</u>	<u>Amount</u>
Total Federal Revenues Statement of Revenues, Expenditures and Changes in Fund balance:		\$ 5,370,772
ARRA - State Fiscal Stabilization Fund	84.394	(96,225)
MAA Billing	93.778	(50,904)
Total Schedule of Expenditures of Federal Awards		<u>\$ 5,223,643</u>

Local Education Agency Organization Structure

This schedule provides information about the District's boundaries and schools operated, members of the governing board, and members of administration.

Schedule of Average Daily Attendance (ADA)

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *Education Code* Sections 46200 through 46206.

Districts must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirements, whichever is greater, as required by *Education Code* Section 46201, Senate Bill 2 of the 2009-2010 Fourth Extraordinary Session (SBX4 2) allows for an equivalent five-day reduction to the required number of instructional minutes for the fiscal years 2009-2010 through 2012-2013.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2010

Reconciliation of Annual Financial and Budget Report With Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Unaudited Actual Financial Report to the audited financial statements.

Schedule of Financial Trends and Analysis

This schedule discloses the District's financial trends by displaying past years' data along with current year budget information. These financial trend disclosures are used to evaluate the District's ability to continue as a going concern for a reasonable period of time.

Schedule of Charter Schools

This schedule lists all Charter Schools chartered by the District, and displays information for each Charter School on whether or not the Charter School is included in the District audit.

Non-Major Governmental Funds - Combining Balance Sheet and Combining Statement of Revenues, Expenditures and Changes in Fund Balance

The Non-Major Governmental Funds Combining Balance Sheet and Combining Statement of Revenues, Expenditures and Changes in Fund Balance is included to provide information regarding the individual funds that have been included in the Non-Major Governmental Funds column on the Governmental Funds Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance.

INDEPENDENT AUDITORS' REPORTS



**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
Menifee Union Elementary School District
Menifee, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Menifee Union Elementary School District as of and for the year ended June 30, 2010, which collectively comprise Menifee Union Elementary School District's basic financial statements and have issued our report thereon dated October 29, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Menifee Union Elementary 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 Menifee Union Elementary School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Menifee Union Elementary 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.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Menifee Union Elementary School District's 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*.

This report is intended solely for the information and use of the governing board, management, the California Department of Education, the State Controller's Office, Federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Varrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California

October 29, 2010



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

Governing Board
Menifee Union Elementary School District
Menifee, California

Compliance

We have audited the compliance of Menifee Union Elementary School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2010. Menifee Union Elementary School District's major Federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of Menifee Union Elementary School District's management. Our responsibility is to express an opinion on Menifee Union Elementary School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Menifee Union Elementary School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Menifee Union Elementary School District's compliance with those requirements.

In our opinion, Menifee Union Elementary School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The management of Menifee Union Elementary School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered Menifee Union Elementary School District's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Menifee Union Elementary School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the governing board, management, the California Department of Education, the State Controller's Office, Federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Varrinek, Trine, Day + Co., LLP

Rancho Cucamonga, California
October 29, 2010



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Governing Board
 Menifee Union Elementary School District
 Menifee, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Menifee Union Elementary School District as of and for the year ended June 30, 2010, and have issued our report thereon dated October 29, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2009-10*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinions.

Compliance with the requirements of laws, regulations, contracts, and grants listed below is the responsibility of Menifee Union Elementary School District's management. In connection with the audit referred to above, we selected and tested transactions and records to determine the Menifee Union Elementary School District's compliance with the State laws and regulations applicable to the following items:

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Attendance Accounting:		
Attendance reporting	8	Yes
Kindergarten continuance	3	Yes
Independent study	23	Not Applicable
Continuation education	10	Not Applicable
Instructional Time:		
School districts	6	Yes
County offices of education	3	Not Applicable
Instructional Materials:		
General requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early retirement incentive	4	Not Applicable
Gann limit calculation	1	Yes
School Accountability Report Card	3	Yes
Public hearing requirement - receipt of funds	1	Yes

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Class Size Reduction Program (including in Charter Schools):		
General requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	Not Applicable
District or charter schools with only one school serving K-3	4	Not Applicable
After School Education and Safety Program		
General requirements	4	Not Applicable
After school	4	Not Applicable
Before school	5	Not Applicable
Charter Schools:		
Contemporaneous records of attendance	1	Not Applicable
Mode of instruction	1	Not Applicable
Non classroom-based instruction/independent study	15	Not Applicable
Determination of funding for non classroom-based instruction	3	Not Applicable
Annual instruction minutes classroom based	3	Not Applicable

Based on our audit, we found that for the items tested, the Menifee Union Elementary School District complied with the State laws and regulations referred to above. Further, based on our audit, for items not tested, nothing came to our attention to indicate that the Menifee Union Elementary School District had not complied with the laws and regulations. Our audit does not provide a legal determination on Menifee Union Elementary School District's compliance with the State laws and regulations referred to above.

This report is intended solely for the information and use of the governing board, management, the California Department of Education, the State Controller's Office, the California Department of Finance, Federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Vavrinek, Trine, Day + Co., LLP

Rancho Cucamonga, California

October 29, 2010

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2010**

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None reported</u>
Type of auditors' report issued on compliance for major programs:	<u>Unqualified</u>
Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133	<u>No</u>

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.394	ARRA: State Fiscal Stabilization Fund
84.389	NCLB - Title I, Part A, Basic Grants Low-Income and Neglected
84.010	NCLB - Title I, ARRA, Part A, Basic Grants Low Income and Neglected
84.027	Special Education Cluster : IDEA, Basic Local Assistance Entitlement, Part B, Section 611
84.027	IDEA, Basic Local Assistance Entitlement, Part B, Section 611, Private School
84.391	IDEA, ARRA Part B, Section 611, Basic Local Assistance and Preschool Local Entitlement
84.173	IDEA, Preschool Grants, Part B, Section 619
84.392	IDEA, ARRA Part B, Section 619, Preschool Grants
84.027A	IDEA, Preschool Local Entitlement, Part B, Section 611
84.173A	IDEA, Preschool Staff Development, Part B, Section 619
10.555	Child Nutrition Cluster: National School Lunch Program
10.553	Especially Needy Breakfast, Basic School Breakfast and Food Distribution

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	<u>No</u>

STATE AWARDS

Internal control over State programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None reported</u>
Type of auditors' report issued on compliance for State programs:	<u>Unqualified</u>

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2010**

None reported.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

None reported.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

None reported.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2010**

Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's schedule of financial statement findings.

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
30000	Internal Control
50000	Federal Compliance

Financial Statement Findings

2009-1 30000 – 50000

Program: *Child Nutrition Cluster: National School Lunch Program CFDA #10.555, Especially Needy Breakfast Program CFDA #10.553 and the Basic Breakfast Program CFDA #10.553*

Finding

Our test included examination of policies and the practical implementation of the policies. We identified interdepartmental memorandum from a retired business administrator that outlined policies and procedures to be performed by directors over programs with Federal awards and by the purchasing department. We found that in purchasing, certifications are retained for vendors exceed \$100,000 upper tier threshold but for vendors who enter into contractual relationships below \$100,000 but above \$25,000 procedures outlined in the memorandum were not being followed. The number of vendors over \$25,000 but below \$100,000 was only four. We tested each and did not find them to be debarred. The District has violated the requirements by not insuring that all vendors in the Tier II threshold have been verified as not being disbarred. The condition resulted from turnover in personnel within the administration and ineffective communication of established policies and procedures.

Recommendation

Establish formal procurement policy, incorporate requirements in periodic trainings and develop an internal monitoring process to evaluate the effectiveness of established policies and procedures.

Current Status

Implemented.