Menifee Union School District

Annual Financial Report

June 30, 2018

MENIFEE UNION SCHOOL DISTRICT

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

Governing Board
Menifee Union School District
Menifee, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Menifee Union School District (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 School District, as of June 30,2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 1 and 17 to the financial statements, the District adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension* . Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 13, budgetary comparison schedule on page 73, schedule of changes in the District's total OPEB liability and related ratios on page 74, schedule of the District's proportionate share of the net OPEB liability - MPP program on page 75, schedule of the District's proportionate share of the net pension liability on page 76, and the schedule of District contributions on page 77 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Menifee Union School District's basic financial statements. The accompanying supplementary information such as the combining and individual non-major fund financial statements and Schedule of Expenditures of Federal Awards, as required by *Title 2 U.S. Code of Federal Regulations (CFR)* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* and the other supplementary information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2018 on our consideration of the Menifee Union School 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 solely 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 effectiveness of Menifee Union School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Menifee Union School District's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 4, 2018

This section of Menifee Union School District's (the District) (audited) annual financial report presents our discussion and analysis of the Menifee Union School District's financial performance during the fiscal year that ended on June 30, 2018, with comparative information from 2017. 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 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 Revenue Funds, Capital Projects Funds, and Debt Service Funds.

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

The *Fiduciary Funds* 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 School District.

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Position and the Statement of Activities

The *Statement of Net Position* 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 position* and changes in them. Net position is the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources, which is one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net position will serve as a useful indicator of whether the financial position of the District 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 Position* 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, certificates of participation, 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.

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 Position*. 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 Position

The District's net position was $154,655,098 for the fiscal year ended June 30, 2018. Of this amount, ($66,109,914) was unrestricted (deficit). Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the governing school board's ability to use net position for day-to-day operations. Our analysis below focuses on the net position (Table 1) and change in net position (Table 2) of the District's governmental activities.

Table 1

	Governmental Activities	
	2018	2017 (as restated)
ASSETS		
Current and other assets	$ 58,812,364	$ 61,174,826
Capital assets	277,042,841	262,105,788
Total Assets	335,855,205	323,280,614
Deferred Outflows of Resources	34,672,659	21,422,048
LIABILITIES		
Current liabilities	5,658,095	5,564,211
Long-term obligations	105,022,747	108,316,514
Aggregate net pension liability	101,315,019	84,789,164
Total Liabilities	211,995,861	198,669,889
Deferred Inflows of Resources	3,876,905	2,164,491
NET POSITION		
Net investment in capital assets	200,431,193	188,952,162
Restricted	20,203,819	14,331,401
Unrestricted (deficit)	(66,109,914)	(59,415,281)
Total Net Position	$ 154,525,098	$ 143,868,282

Change in Net Position

The results of this year's operations for the District as a whole are reported in the *Statement of Activities* on page 15.

Table 2

	Governmental Activities	
	2018	2017
Revenues		
Program revenues:		
Charges for services	$ 2,187,010	$ 1,813,505
Operating grants and contributions	16,241,974	14,810,548
General revenues:		
State revenue limit sources	69,354,796	68,619,078
Property and other taxes	19,452,141	15,175,080
Other general revenues	27,813,379	9,850,745
Total Revenues	135,049,300	110,268,956
Expenses		
Instruction-related	87,485,238	80,654,060
Pupil services	10,257,167	10,394,579
Administration	9,116,682	5,740,920
Plant services	10,458,446	10,298,622
Other	6,944,951	6,222,866
Total Expenses	124,262,484	113,311,047
Change in Net Position	$ 10,786,816	$ (3,042,091)

Governmental Activities

As reported in the *Statement of Activities* on page 15 the cost of all of our governmental activities this year was $124,262,484. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only $19,452,141 because the cost was paid by those who benefited from the programs ($2,187,010) or by other governments and organizations who subsidized certain programs with grants and contributions ($16,241,974). We paid for the remaining "public benefit" portion of our governmental activities with $97,168,175 in State funds, and with other revenues, like interest and general entitlements.

In Table 3, we have presented the cost of each of the District's largest functions – instruction including, special instruction programs and instructional programs, pupil services, administration, plant services, and all 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	
	2018	2017
Instruction	$ 66,338,008	$ 60,464,017
Instruction-related activities	9,446,448	9,972,348
Other pupil services	5,846,862	6,153,605
General administration	8,176,667	5,117,955
Plant services	10,449,731	10,254,714
Other	5,575,784	4,724,355
Total	$ 105,833,500	$ 96,686,994

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of $54,164,563 as detailed below:

Table 4

	2018	2017
General Fund	$ 8,563,094	$ 9,433,421
Building Fund	1,911,338	20,316,959
Capital Facilities Fund	10,566,221	10,362,123
Capital Project Fund for Blended Component Units	23,927,573	9,733,163
Bond Interest and Redemption Fund	7,621,142	5,067,222
Non-Major Governmental Funds	1,575,195	1,420,014
Total	$ 54,164,563	$ 56,332,902

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 September 2018. (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 73.)

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 is used primarily to account separately for proceeds from the sale of bonds and may not be used for any purposes other than those for which the bonds were issued.

- 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. These funds are committed or assigned for acquisition or construction of facilities.

- The Capital Project Fund for Blended Component Units 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).

- The Bond Interest and Redemption Fund is used for the repayment of bonds issued.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2018, the District had $277 million in a broad range of capital assets, including land, buildings, and equipment.

Table 5

(Net of Accumulated Depreciation)	Governmental Activities	
	2018	2017
Land and construction in process	$ 68,563,947	$ 47,848,913
Buildings and improvements/site improvements	207,007,976	213,626,724
Equipment	1,470,918	630,151
Total	$ 277,042,841	$ 262,105,788

Long-Term Obligations

At the end of this year, the District had $105 million in long-term obligations outstanding versus $108.3 million last year. Those long-term obligations consisted of the following:

Table 6

	Governmental Activities	
		(as restated)
	2018	2017
General obligation bonds (Net of Premiums and Discounts)	$ 76,318,883	$ 77,448,084
Certificates of participation and QZAB	24,116,066	25,755,664
Accumulated vacation	277,852	270,551
Developer Fee Agreement	2,015,610	2,029,922
Net OPEB asset	2,294,336	2,812,293
Total	$ 105,022,747	$ 108,316,514

The District's general obligation bond rating with Fitch is A+, and with S&P it is an AA-. 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 $76.4 million are below this statutorily imposed limit.

Net Pension Liability (NPL)

As of June 30, 2018, the District's net pension liability is $101.3 million.

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2017-2018

- The financial plan of the District continues to successfully support and implement the District's instructional mission, goals and plan.

- The District identified Collective Commitments in order to prioritize fiscal and human resources.

- The District continues to seek to improve support services that offer cost savings.

FACTORS BEARING ON THE DISTRICT'S FUTURE

The following are some of the key budget assumptions the District is making:

- Numerous developers are increasing home permits within the District boundaries. The District anticipates enrollment will grow at an increased rate consistent with housing construction in the area. The District anticipates enrollment growth of 316 students for 2018-2019.

- With the increase in enrollment growth, the District continues to hire staff. Staffing and financial planning will continue to be very conservative during the multi-year projection period.

- In November 2016, voters approved a General Obligation Bond in the amount of $135,000,000 to build two new elementary schools; one middle school and complete renovations of other school sites over the next seven years. In August 2018, the District opened its eleventh elementary school, and is negotiating the land acquisition for the next middle school.

- On-site solar energy generation carports, ground mounts and roof systems have been installed District-wide and are reflecting a decrease in energy costs.

- The State radically altered the historical funding method for public education in 2013-14 and enacted the local control funding formula (LCFF). The Department of Finance estimated it would take eight years to fully phase in the new funding formula. In 2018-19, the State’s adopted budget has fully closed the Gap funding two years ahead of the intended 2020-21 implementation.

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 Ambur Borth, Assistant Superintendent, Business Services, Menifee Union School District, 29775 Haun Road, Menifee, California 92584, or email at business@menifeeusd.org.

MENIFEE UNION SCHOOL DISTRICT

STATEMENT OF NET POSITION
JUNE 30, 2018

	Governmental Activities
ASSETS	
Deposits and investments	$ 55,508,873
Receivables	3,250,325
Stores inventories	53,166
Capital Assets:	
Land and construction in process	68,563,947
Other capital assets	280,591,596
Less: Accumulated depreciation	(72,112,702)
Total Capital Assets	277,042,841
Total Assets	335,855,205
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources related to pensions	34,672,659
LIABILITIES	
Accounts payable	4,592,839
Interest payable	1,010,294
Unearned revenue	54,962
Long-Term Obligations	
Current portion of long-term obligations other than pensions	5,967,728
Noncurrent portion of long-term obligations other than pensions	99,055,019
Total Long-Term obligation	105,022,747
Aggregate net pension liability	101,315,019
Total Liabilities	211,995,861
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	3,862,143
Deferred inflows of resources related to net other postemployment benefits (OPEB) liability	14,762
Total Deferred Inflows of Resources	3,876,905
NET POSITION	
Net investment in capital assets	200,431,193
Restricted for:	
Debt service	6,610,848
Capital projects	10,696,221
Educational programs	1,504,721
Other activities	1,522,029
Unrestricted	(66,109,914)
Total Net Position	$ 154,655,098

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

MENIFEE UNION SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

		Program Revenues		Net (Expenses) Revenues and Changes in Net Position
Functions/Programs	**Expenses**	**Charges for Services and Sales**	**Operating Grants and Contributions**	**Governmental Activities**
Governmental Activities:				
Instruction	$ 76,364,211	$ -	$ 10,026,203	$ (66,338,008)
Instruction-related activities:				
Supervision of instruction	4,145,505	-	1,462,202	(2,683,303)
Instructional library, media, and technology	973,293	-	2,795	(970,498)
School site administration	6,002,229	-	209,582	(5,792,647)
Pupil services:				
Home-to-school transportation	1,731,281	-	20,817	(1,710,464)
Food services	3,153,764	882,206	2,289,269	17,711
All other pupil services	5,372,122	-	1,218,013	(4,154,109)
General administration:				
Data processing	1,340,453	-	12,519	(1,327,934)
All other general administration	7,776,229	572,249	355,247	(6,848,733)
Plant services	10,458,446	5,880	2,835	(10,449,731)
Community services	112,049	-	-	(112,049)
Interest on long-term obligations	2,810,973	-	-	(2,810,973)
Other outgo	4,021,929	726,675	642,492	(2,652,762)
Total Governmental Activities	$ 124,262,484	$ 2,187,010	$ 16,241,974	(105,833,500)

General Revenues and Subventions:	
Property taxes, levied for general purposes	13,198,252
Property taxes, levied for debt service	5,889,523
Property taxes, levied for other specific purposes	364,366
State aid not restricted to specific purposes	69,354,796
Interest and investment earnings	97,334
Transfers between agencies	130,000
Miscellaneous	27,586,045
Total General Revenues and Subventions	116,620,316
Change in Net Assets	10,786,816
Net Position - Beginning, as restated	143,868,282
Net Position - Ending	$ 154,655,098

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

MENIFEE UNION SCHOOL DISTRICT

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2018

	General Fund	Building Fund	Capital Facilities Fund
ASSETS			
Deposits and investments	$ 9,489,483	$ 2,826,586	$ 10,448,626
Receivables	2,515,667	22,510	170,176
Due from other funds	177,247	-	-
Stores inventories	-	-	-
Total Assets	$ 12,182,397	$ 2,849,096	$ 10,618,802
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 3,564,341	$ 937,758	$ 52,581
Due to other funds	-	-	-
Unearned revenue	54,962	-	-
Total Liabilities	3,619,303	937,758	52,581
Fund Balances:			
Nonspendable	5,000	-	-
Restricted	1,504,721	1,911,338	10,566,221
Committed	309,907	-	-
Assigned	3,784,454	-	-
Unassigned	2,959,012	-	-
Total Fund Balances	8,563,094	1,911,338	10,566,221
Total Liabilities and Fund Balances	$ 12,182,397	$ 2,849,096	$ 10,618,802

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

Capital Project Fund for Blended Component Units	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
$ 24,057,573	$ 7,621,142	$ 1,065,463	$ 55,508,873
-	-	541,972	3,250,325
-	-	2,309	179,556
-	-	53,166	53,166
$ 24,057,573	$ 7,621,142	$ 1,662,910	$ 58,991,920
$ -	$ -	$ 38,159	$ 4,592,839
130,000	-	49,556	179,556
-	-	-	54,962
130,000	-	87,715	4,827,357
-	-	53,166	58,166
23,927,573	7,621,142	1,522,029	47,053,024
-	-	-	309,907
-	-	-	3,784,454
-	-	-	2,959,012
23,927,573	7,621,142	1,575,195	54,164,563
$ 24,057,573	$ 7,621,142	$ 1,662,910	$ 58,991,920

MENIFEE UNION SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION JUNE 30, 2018

Total Fund Balance - Governmental Funds		**$**	**54,164,563**
Amounts Reported for Governmental Activities in the Statement of Net Position 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	$ 349,155,543		
Accumulated depreciation is	(72,112,702)		
Net Capital Assets			277,042,841
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.			(1,010,294)
Deferred outflows of resources related to pensions represent a consumption of net position in a future period and is not reported in the District's funds. Deferred outflows of resources related to pensions at year-end consist of:			
Pension contributions subsequent to measurement date	8,408,614		
Net change in proportionate share of net pension liability	6,556,470		
Difference between projected and actual earnings on pension plan investments	707,712		
Differences between expected and actual experience in the measurement of the total pension liability.	1,031,949		
Changes in assumptions	17,967,914		
Total Deferred Outflows of Resources Related to Pensions		$	34,672,659

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

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION (CONTINUED)
JUNE 30, 2018

Deferred inflows of resources related to pensions represent an acquisition of net position that applies to a future period and is not reported in the District's funds. Deferred inflows of resources related to pensions at year-end consist of:		
Net change in proportionate share of net pension liability	(57,558)	
Difference between projected and actual earnings on pension plan investments	(2,153,442)	
Differences between expected and actual experience in the measurement of the total pension liability.	(1,410,274)	
Changes of assumptions	(240,869)	
Total Deferred Outflows of Resources Related to Pensions		$ (3,862,143)
Deferred inflows of resources related to OPEB represent a consumption of net position in a future period and is not reported in the District's funds. Deferred inflows of resources related to OPEB at year-end consist of OPEB contributions subsequent to measurement date.		(14,762)
Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.		(101,315,019)
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:		
Bonds payable	$ 70,224,912	
Premium on issuance	5,468,467	
Certificates of participation	3,143,007	
Discount on issuance	(86,632)	
QZAB	20,973,059	
Compensated absences (vacations)	277,852	
Net OPEB asset	2,294,336	
In addition, the District previously issued "capital appreciation" general obligation bonds. The cumulative capital accretion on the general obligation bonds is:	712,136	
Developer fee agreement	2,015,610	
Total Long-Term Obligations		(105,022,747)
Total Net Position - Governmental Activities		**$ 154,655,098**

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

MENIFEE UNION SCHOOL DISTRICT

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2018

	General Fund	Building Fund	Capital Facilities Fund
REVENUES			
Local Control Funding Formula	$ 79,203,578	$ -	$ -
Federal sources	3,644,304	-	-
Other State sources	8,974,288	-	-
Other local sources	5,310,819	168,214	4,730,877
Total Revenues	97,132,989	168,214	4,730,877
EXPENDITURES			
Current			
Instruction	65,140,129	-	-
Instruction-related activities:			
Supervision of instruction	3,718,305	-	-
Instructional library, media, and technology	941,369	-	-
School site administration	5,672,656	-	-
Pupil services:			
Home-to-school transportation	1,524,813	-	-
Food services	-	-	-
All other pupil services	5,100,366	-	-
General administration:			
Data processing	1,195,152	-	-
All other general administration	4,651,903	-	2,880,130
Plant services	8,716,899	-	9,260
Facility acquisition and construction	30,077	18,573,835	1,473,753
Community services	112,700	-	-
Other outgo	134,800	-	-
Debt service			
Principal	1,247,647	-	406,263
Interest and other	130,647	-	108,308
Total Expenditures	98,317,463	18,573,835	4,877,714
Excess (Deficiency) of Revenues Over Expenditures	(1,184,474)	(18,405,621)	(146,837)
Other Financing Sources (Uses)			
Transfers in	322,545	-	413,385
Other sources	-	-	95
Transfers out	(8,398)	-	(62,545)
Net Financing Sources (Uses)	314,147	-	350,935
NET CHANGE IN FUND BALANCES	(870,327)	(18,405,621)	204,098
Fund Balances - Beginning as restated	9,433,421	20,316,959	10,362,123
Fund Balances - Ending	$ 8,563,094	$ 1,911,338	$ 10,566,221

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

Capital Project Fund for Blended Component Units	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
$ -	$ -	$ -	$ 79,203,578
-	-	2,227,083	5,871,387
-	64,036	864,024	9,902,348
1,687,131	5,885,260	944,346	18,726,647
1,687,131	5,949,296	4,035,453	113,703,960
-	-	376,518	65,516,647
		-	
-	-	193,257	3,911,562
-	-	-	941,369
-	-	-	5,672,656
		-	
-	-	-	1,524,813
-	-	3,112,351	3,112,351
-	-	15,524	5,115,890
		-	
-	-	-	1,195,152
-	-	190,502	7,722,535
-	-	518	8,726,677
3,334,600	-	-	23,412,265
-	-	-	112,700
3,887,129	-	-	4,021,929
		-	
-	1,575,000	-	3,228,910
-	1,838,212	-	2,077,167
7,221,729	3,413,212	3,888,670	136,292,623
(5,534,598)	2,536,084	146,783	(22,588,663)
-	-	8,398	744,328
20,402,393	17,836	-	20,420,324
(673,385)	-	-	(744,328)
19,729,008	17,836	8,398	20,420,324
14,194,410	2,553,920	155,181	(2,168,339)
9,733,163	5,067,222	1,420,014	56,332,902
$ 23,927,573	$ 7,621,142	$ 1,575,195	$ 54,164,563

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, 2018

Total Net Change in Fund Balances - Governmental Funds		**$ (2,168,339)**
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 Position 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	$ 21,818,959	
Depreciation expense	(6,881,906)	
Net Expense Adjustment		14,937,053
In the Statement of Activities, certain operating expenses - compensated absences (vacations) and special termination benefits (early retirement) 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). This year, vacation used was less than amounts earned by $7,301.		(7,301)
In the governmental funds, pension costs are based on employer contributions made to pension plans during the year. However, in the Statement of Activities, pension expense is the net effect of all changes in the deferred inflows and net pension liability during the year.		(4,972,896)
In the governmental funds, OPEB costs are based on employer contributions made to OPEB plans during the year. However, in the Statement of Activities, OPEB expense is the net effect of all changes in the deferred outflows, deferred inflows, and net OPEB liability during the year.		503,195

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

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018

Payment of bond principal on long-term obligations is an expenditure in the governmental funds, but it reduces long-term obligations in the Statement of Net Position and does not affect the Statement of Activities:		
General obligation bonds	$ 1,575,000	
Certificates of participation	391,951	
Developer Fee Agreeement	14,312	
QZAB	1,247,647	
Combined Adjustment		$ 3,228,910
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	277,166	
Amortization of debt discount	(10,829)	
Combined Adjustment		266,337
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. First, accrued interest on the general obligation bonds and certificates of participation increased by $288,007, and second, $712,136 of additional accumulated interest was accreted on the District's "capital appreciation" general obligation bonds.		(1,000,143)
Change in Net Position of Governmental Activities		**$ 10,786,816**

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

MENIFEE UNION SCHOOL DISTRICT

FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2018

	Agency Funds		
	Debt Service Special Tax Bonds	**Associated Student Body Funds**	**Total Agency Funds**
ASSETS			
Deposits and investments	$ 17,205,149	$ 171,724	$ 17,376,873
LIABILITIES			
Due to student groups	$ -	$ 171,724	$ 171,724
Due to bond holders	17,205,149	-	17,205,149
Total Liabilities	$ 17,205,149	$ 171,724	$ 17,376,873

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Menifee Union 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 grade Transitional K - 8 as mandated by the State and/or Federal agencies. The District operates ten elementary schools, one STEAM Academy, 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 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 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). 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 Fund for Blended Component Units. The debt service reserve fund proceeds are presented in an agency fund.

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 the District. All transactions except those accounted for in another fund are accounted for in this fund.

One fund currently defined as special revenue funds in the California State Accounting Manual (CSAM) does not meet the GASB Statement No. 54 special revenue fund definition. Specifically, Fund 14, Deferred Maintenance Fund, is not substantially composed of restricted or committed revenue sources. While this fund is authorized by statute and will remain open for internal reporting purposes, this fund functions effectively as an extension of the General Fund, and accordingly has been combined with the General Fund for presentation in these audited financial statement.

As a result, the General Fund reflects an increase in fund balance of $309,907.

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 and *Government Code* Section 65995 et seq.). 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).

Capital Project Fund for Blended Component Units The Capital Project Fund for Blended Component Units 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).

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).

Non-Major Governmental Funds

Special Revenue Funds The Special Revenue funds are used to account for the proceeds from specific revenue sources (other than trusts, major capital projects, or debt service) that are restricted or committed to the financing of particular activities that compose a substantial portion of the inflows of the fund, and that are reasonably expected to continue. Additional resources that are restricted, committed, or assigned to the purpose of the fund may also be reported in the fund.

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).

Fiduciary Funds Fiduciary funds are used to account for assets held in trustee or agent capacity for others that cannot be used to support the District's own programs. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. The key distinction between trust and agency funds is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

The Fiduciary Funds reporting focuses on net position and changes in net position. 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.

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

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 position should be reported as restricted when constraints placed on net position 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 position restricted for other activities result from special revenue funds and the restrictions on their net position 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 balances 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. Fiduciary funds are excluded from the government-wide financial statements because they do not represent resources of the District.

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. 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.

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.

Unearned Revenue Unearned 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 unearned revenue is removed from the balance sheet and revenue is recognized.

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

Investments

Investments held at June 30, 2018, 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 position. 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 position, 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 position. 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.

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.

Debt Issuance Costs, Premiums, and Discounts

In the government-wide financial statements and in the proprietary fund type financial statements, long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net position. Debt premiums and discounts, as well as issuance costs, related to prepaid insurance costs are amortized over the life of the bonds using the straight-line method.

In governmental fund financial statements, bond premiums and discounts, as well as debt issuance costs are recognized in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuance are also reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds, are reported as debt service expenditures.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position also reports deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The District reports deferred outflows of resources for current year pension contributions.
In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The District reports deferred inflows of resources for pension related items, and OPEB related items.

Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the California State Teachers Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) plan for schools (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalSTRS and CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Member contributions are recognized in the period in which they are earned. Investments are reported at fair value.

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the CalSTRS Medicare Premium Payment Program (MPP) and additions to/deductions from MPP's fiduciary net position have been determined on the same basis as they are reported by MPP. For this purpose, MPP recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

Fund Balances - Governmental Funds

As of June 30, 2018, fund balances of the governmental funds are classified as follows:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed - amounts that can be used only for specific purposes determined by a formal action of the governing board. The governing board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions or other action as approved by the governing board. The District currently does not have any committed funds.

Assigned - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the District's adopted policy, only the governing board or chief business officer/assistant superintendent of business services may assign amounts for specific purposes.

Unassigned - all other spendable amounts.

Spending Order Policy

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the governing board has provided otherwise in its commitment or assignment actions.

Minimum Fund Balance Policy

The governing board adopted a minimum fund balance policy for the General Fund in order to protect the district against revenue shortfalls or unpredicted on-time expenditures. The policy intends for the District to maintain a minimum fund balance equal to three percent of the District's general fund annual operating expenditures and other financing uses plus two months of general fund annual operating expenditures and other financing uses. If a fund balance drops below five percent, it shall be recovered at a rate of two percent minimally, each year, when financial circumstances permit.

Net Position

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets, 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 position is 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 position is available. The government-wide financial statements report $20,203,819 of restricted net position.

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.

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.

Change in Accounting Principles

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension.* The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

The District has implemented the provisions of this Statement as of June 30, 2018.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017.* The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation;

- Reporting amounts previously reported as goodwill and "negative" goodwill;

- Classifying real estate held by insurance entities;

- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost;

- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus;
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements;
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB;
- Classifying employer-paid member contributions for OPEB;
- Simplifying certain aspects of the alternative measurement method for OPEB;
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

The District has implemented the provisions of this Statement as of June 30, 2018.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues.* The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

The District has implemented the provisions of this Statement as of June 30, 2018.

New Accounting Pronouncements

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations.* This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Early implementation is encouraged.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities.* The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Early implementation is encouraged.

In June 2017, the GASB issued Statement No. 87, *Leases.* The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The requirements of this Statement are effective for the reporting periods beginning after December 15, 2019. Early implementation is encouraged.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Early implementation is encouraged.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2018, are classified in the accompanying financial statements as follows:

Governmental activities	$ 55,508,873
Fiduciary funds	17,376,873
Total Deposits and Investments	$ 72,885,746

Deposits and investments as of June 30, 2018, consist of the following:

Cash on hand and in banks	$ 38,502,475
Cash in revolving	5,000
Investments	34,378,271
Total Deposits and Investments	$ 72,885,746

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.

General Authorizations

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

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

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. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District manages its exposure to interest rate risk by investing in the County Pool.

Weighted Average Maturity

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

Investment Type	Reported Amount	Weighted Average Maturity In Days
Riverside County Investment Pool	$ 31,446,300	427
Money Market Mutual Funds	2,931,971	16
Total	$ 34,378,271	

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 by Fitch Ratings. The Money Market Mutual Funds are rated AAA by Fitch Ratings.

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, 2018, the District's bank balance of $41,012,722 was exposed to custodial credit risk.

NOTE 3 - FAIR VALUE MEASUREMENTS

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value. The following provides a summary of the hierarchy used to measure fair value:

Level 1 **-** Quoted prices in active markets for identical assets that the District has the ability to access at the measurement date. Level 1 assets may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level 2 **-** Observable inputs other than Level 1 prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, such as interest rates and curves observable at commonly quoted intervals, implied volatilities, and credit spreads. For financial reporting purposes, if an asset has a specified term, a Level 2 input is required to be observable for substantially the full term of the asset.

Level 3 **-** Unobservable inputs should be developed using the best information available under the circumstances, which might include the District's own data. The District should adjust that data if reasonably available information indicates that other market participants would use different data or certain circumstances specific to the District are not available to other market participants.

Uncategorized **-** Investments in the Riverside County Treasury Investment Pool are not measured using the input levels above because the District's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at $1.00 net asset value per share.

The District's fair value measurements are as follows at June 30, 2018:

		Fair Value Measurements Using	
Investment Type	Reported Amount	Level 2 Inputs	Uncategorized
Riverside County Treasury Investment Pool	$ 31,446,300	$ -	$ 31,446,300
Money Market Mutual funds	-	2,931,971	2,931,971
Total	$ 31,446,300	$ 2,931,971	$ 34,378,271

NOTE 4 - RECEIVABLES

Receivables at June 30, 2018, 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 Governmental Activities
Federal Government					
Categorical aid	$ 911,128	$ -	$ -	$ 364,667	$ 1,275,795
State Government					
Categorical aid	148,274	-	-	173,281	321,555
Lottery	421,420	-	-	-	421,420
Local Government					
Interest	40,635	22,510	41,801	3,916	108,862
Other local sources	994,210	-	128,375	108	1,122,693
Total	$ 2,515,667	$ 22,510	$ 170,176	$ 541,972	$ 3,250,325

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2018, was as follows:

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	$ 43,724,548	$ -	$ -	$ 43,724,548
Construction in process	4,124,365	21,682,589	967,555	24,839,399
Total Capital Assets Not Being Depreciated	47,848,913	21,682,589	967,555	68,563,947
Capital Assets Being Depreciated				
Site improvements	9,177,044	25,696	-	9,202,740
Buildings and improvements	263,569,990	70,796	-	263,640,786
Furniture and equipment	6,740,637	1,007,433	-	7,748,070
Total Capital Assets Being Depreciated	279,487,671	1,103,925	-	280,591,596
Total Capital Assets	327,336,584	22,786,514	967,555	349,155,543
Less Accumulated Depreciation				
Site improvements	4,212,787	459,061		4,671,848
Buildings and improvements	54,907,523	6,256,179		61,163,702
Furniture and equipment	6,110,486	166,666	-	6,277,152
Total Accumulated Depreciation	65,230,796	6,881,906	-	72,112,702
Governmental Activities Capital Assets, Net	$ 262,105,788	$ 15,904,608	$ 967,555	$ 277,042,841

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
Instruction	$ 6,675,449
Home-to-school transportation	206,457
Total Depreciation Expenses Governmental Activities	$ 6,881,906

NOTE 6 - 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, 2018, between major and non-major governmental funds are as follows:

	Due From		
Due To	Capital Project Fund for Blended Component Units	Non-Major Governmental Funds	Total
General Fund	$ 130,000	$ 47,247	$ 177,247
Non-Major Governmental Funds	-	2,309	2,309
Total	$ 130,000	$ 49,556	$ 179,556

A balance of $130,000 is due to the General Fund governmental fund from the Capital Projects Fund for Blended Compenet Units Fund for CFD admin expenses.	$ 130,000
A balance of $17,620 is due to the General Fund from the Cafeteria Non-Major Fund for indirect charges	17,620
A balance of $29,627 is due to the General Fund from the Child Development Non- Major Fund for indirect charges	29,627

All remaining balances resulted from the time lag between the date that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

Operating Transfers

Interfund transfers for the year ended June 30, 2018, consisted of the following:

	Transfer From			
Transfer To	General Fund	Capital Facilities Fund	Capital Project Fund for Blended Component Units	Total
General Fund	$ -	$ 62,545	$ 260,000	$ 322,545
Capital Facilities Fund	-	-	413,385	413,385
Non-Major Governmental Funds	8,398	-	-	8,398
Total	$ 8,398	$ 62,545	$ 673,385	$ 744,328

The Capital Project Fund for Blended Component Unit transferred to the General Fund for reimbursement of CFD admin expenses	$ 260,000
The Capital Facilities Fund transferred to the General Fund for developer fees admin costs.	62,545
The General Fund transferred to the Cafeteria Non-Major Fund for bad debt expense.	8,398
The Capital Project Fund for Blended Component Unit transferred to the Capital Facilities Fund for reimbursement of expenses.	413,385
Total	$ 744,328

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2018, consisted of the following:

	General Fund	Building Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total Governmental Activities
Vendor payables	$ 2,379,289	$ -	$ 52,581	$ 31,023	$ 2,462,893
State principal apportionment	924,851	-	-	-	924,851
Salaries and benefits	260,201	-	-	7,136	267,337
Construction payables	-	937,758	-	-	937,758
Total	$ 3,564,341	$ 937,758	$ 52,581	$ 38,159	$ 4,592,839

NOTE 8 - UNEARNED REVENUE

Unearned revenue at June 30, 2018, consisted of the following:

	General Fund
Federal financial assistance	$ 54,962

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

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

	Balance Beginning of year (as restated)	Addition	Deductions	Balance End of Year	Due in One Year
General obligation bonds	$ 71,799,912	$ 712,136	$ 1,575,000	$ 70,937,048	$ 4,240,000
Premium on issuance	5,745,633	-	277,166	5,468,467	-
Discount on issuance	(97,461)	-	(10,829)	(86,632)	-
Certificates of Participation					
2004 Refunding Series	3,534,958	-	391,951	3,143,007	405,081
QZAB	22,220,706	-	1,247,647	20,973,059	1,322,647
Accumulated vacation	270,551	7,301		277,852	-
Developer fee agreement	2,029,922	-	14,312	2,015,610	
Net other postemployment benefits (OPEB) liability	2,812,293	-	517,957	2,294,336	-
	$ 108,316,514	$ 719,437	$ 4,013,204	$ 105,022,747	$ 5,967,728

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 and QZAB are paid from the COP Debt Service Fund from resources of the Capital Facilities Fund, including developer fees. Developer fee agreement is being paid from the Capital Facilities fund. The accumulated vacation liability is liquidated in the fund which the employee who earned the vacation is paid from. Payments for net other postemployment benefits (OPEB) liability are made from the General Fund and the fund in which the employee worked.

General Obligation Bonds

Series 2002 A

In June 2003, the District issued current interest and capital 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.

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, and 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 2013 General Obligation Refunding Bonds

In February 2013, the District issued $8,835,000 in 2013 General Obligation Refunding Bonds. Proceeds from the Bonds were used to advance refund a portion of the District's outstanding General Obligation Bonds 2002 Series A. The Bonds mature February 1, 2028, with interest rates ranging from 1.25 percent to 3 percent.

Series 2014 General Obligation Refunding Bonds

In February 2013, the District issued $4,230,000 in 2014 General Obligation Refunding Bonds. Proceeds from the Bonds were used to advance refund a portion of the District's outstanding General Obligation Bonds 2002 Series B. The Bonds mature February 1, 2030, with interest rates ranging from 2 percent to 5 percent.

Series 2016 General Obligation Refunding Bonds

In August 2016, the District issued $25,010,000 in 2016 General Obligation Refunding Bonds. Proceeds from the bond were used to advance refund a portion of the Districts outstanding 2008 Election General Obligation Series A and a portion of the Districts outstanding 2008 General Obligation Bond Series B. The bonds mature February 1, 2034 with interest rates ranging from 2 percent to 5 percent.

Bonds were defeased per escrow agreement with US Bank dated August 1, 2016. Amount deposited to escrow was $26,850,536.54. These funds were used to purchase TNote securities with varying interest rates. Subsequently, the 2008 Series A bonds will be redeemed in the total principal amount for $14,630,000 on August 1, 2018. Until that time, interest payments will be made on the outstanding defeased bonds. 2009 series B bonds will also be redeemed on August 1, 2019 and will also pay interest on the outstanding defeased bonds until redemption. The total amount of all interest and principal payments scheduled for both series is $27,249,487.50. The difference between this amount and the original deposit to escrow is $398,950.96 which will presumptively be earned on the escrow balance over the remaining debt pay off.

Series 2017 A

In an election held November, 2016, the District voters authorized a bond in the amount of $135,000,000. In June 2017, the District issued General Obligation Bonds, Series A in the amount of $23,295,000 and 17.33 percent of the authorized amount. The bonds were issued for the purpose of paying to finance the acquisition and construction of eligible school facilities.

The changes in the District's general obligation refunding bonds during the year consist of the following:

Series	Fiscal Year of Maturities	Interest and Accretion Rates	Original Issue	Bonds/Premium Outstanding Beginning of Year	Accreted Interest or Addition	Redeemed or Amortized	Bonds/Premium and discount Outstanding End of Year	Due in One Year
2002 B	2031	3.00-4.27%	5,069,720	474,719	29,385		504,104	-
	Premiums on Issuance		-	93,768		7,814	85,954	-
2008 A	2019	4.00-5.50%	15,730,000	550,000		250,000	300,000	300,000
	Premiums on Issuance		-	177,855		11,857	165,998	-
2008 B & C	2039	3.00-10.51%	15,730,000	9,580,193	682,751	250,000	10,012,944	300,000
	Premiums on Issuance		-	829,633		36,071	793,562	-
2013	2031	1.25-3.00%	8,835,000	8,755,000		435,000	8,320,000	500,000
	Discount on Issuance		-	(97,461)		(10,829)	(86,632)	-
2014	2031	2.00-5.00%	4,230,000	4,035,000		125,000	3,910,000	125,000
	Premiums on Issuance		-	139,126		10,702	128,424	-
2016	2035	2.00-5.00%	25,010,000	25,010,000		515,000	24,495,000	340,000
	Premiums on Issuance			2,189,921		121,667	2,068,254	-
2017	2043	3.00-5.00%	23,395,000	23,395,000			23,395,000	2,675,000
	Premiums on Issuance			2,315,330		89,055	2,226,275	-
			$ 97,999,720	$ 77,448,084	$ 712,136	$ 1,841,337	$ 76,318,883	$ 4,240,000

Debt Service Requirements to Maturity

Series 2002 B

The bonds mature as follows:

Fiscal Year	Principal Including Accreted Interest to Date	Accreted Interest	Total
2029-2032	$ 504,104	$ 495,896	$ 1,000,000

Series 2008 A

The bonds mature as follows:

Fiscal Year	Principal	Current Interest to Maturity	Total
2019	$ 300,000	$ 7,875	$ 307,875

Series 2008 B and C

The bonds mature as follows:

Fiscal Year	Principal Including Accreted Interest to Date	Accreted Interest	Current Interest to Maturity	Total
2019	$ 300,000	-	$ 22,875	$ 322,875
2020	375,000	-	8,438	383,438
2021	-	-	-	-
2022	-	-	-	-
2023				
2024-2028	2,075,904	6,524,097	-	8,600,001
2029-2033	6,209,578	16,290,422	-	22,500,000
2034-2038	1,052,462	3,447,538	-	4,500,000
Total	$ 10,012,944	$ 26,262,057	$ 31,313	$ 36,306,314

Series 2013 Refunding

The bonds mature as follows:

Fiscal Year	Principal	Current Interest to Maturity	Total
2019	$ 500,000	$ 217,675	$ 717,675
2020	555,000	208,375	763,375
2021	615,000	196,675	811,675
2022	690,000	182,763	872,763
2023	760,000	165,500	925,500
2024-2028	5,200,000	420,000	5,620,000
Total	$ 8,320,000	$ 1,390,988	$ 9,710,988

Series 2014 Refunding

The bonds mature as follows:

Fiscal Year	Principal	Current Interest to Maturity	Total
2019	$ 125,000	$ 134,563	$ 259,563
2020	150,000	130,438	280,438
2021	190,000	125,338	315,338
2022	205,000	119,413	324,413
2023	215,000	113,113	328,113
2024-2028	1,410,000	399,938	1,809,938
2029-2032	1,615,000	41,519	1,656,519
Total	$ 3,910,000	$ 1,064,322	$ 4,974,322

Series 2016 Refunding

Fiscal Year	Principal	Current Interest to Maturity	Total
2019	340,000	751,731	1,091,731
2020	635,000	743,456	1,378,456
2021	1,080,000	718,681	1,798,681
2022	1,195,000	673,181	1,868,181
2023	1,345,000	622,381	1,967,381
2024-2028	9,210,000	2,194,544	11,404,544
2029-2033	9,170,000	656,372	9,826,372
2034-2036	1,520,000	19,000	1,539,000
Total	$ 24,495,000	$ 6,379,346	$ 30,874,346

Series 2017 Series A

Fiscal Year	Principal	Current Interest to Maturity	Total
2019	2,675,000	957,681	3,632,681
2020	2,785,000	848,481	3,633,481
2021	905,000	774,681	1,679,681
2022	750,000	737,831	1,487,831
2023	125,000	715,956	840,956
2024-2028	1,315,000	3,424,281	4,739,281
2029-2033	2,810,000	2,944,956	5,754,956
2034-2038	4,655,000	2,334,272	6,989,272
2039-2043	7,375,000	1,043,044	8,418,044
Total	$ 23,395,000	$ 13,781,183	$ 37,176,183

Certificates of Participation

In July 2012, the District issued Refunding Certificates of Participation in the amount of $5,139,197. Interest rates on the certificates are 3.15 percent. The certificates mature through 2026.

The certificates are issued to refinance on an advance basis the outstanding 2004 lease obligation of the District and the related certificates of participation.

At June 30, 2018, the principal balance outstanding was $3,143,007.

Fiscal Year	Principal	Interest	Total
2019	405,081	95,875	500,956
2020	417,314	82,995	500,309
2021	428,841	69,776	498,617
2022	444,363	56,159	500,522
2023	459,289	42,056	501,345
2024-2026	988,119	42,167	1,030,286
Total	$ 3,143,007	$ 389,028	$ 3,532,035

Qualified Zone Academy Bond

In December 2014, the District issued $25,130,000 aggregate principal amount of Qualified Zone Academy Bond Program (QZAB) certificates of participation. The QZAB certificates represent interest free financing for the District. Owners of the QZAB certificates receive a Federal tax credit in lieu of charging the District interest on the certificates. The certificates mature on June 1, 2031. At, June 30, 2018, the outstanding balance was $20,973,059.

Fiscal Year	Principal	Current Interest to Maturity	Total
2019	1,322,647	124,017	1,446,664
2020	1,237,647	116,647	1,354,294
2021	1,158,647	110,935	1,269,582
2022	1,241,647	105,208	1,346,855
2023	1,330,647	98,629	1,429,276
2024-2028	8,160,235	360,499	8,520,734
2029-2031	6,521,589	71,318	6,592,907
Total	$ 20,973,059	$ 987,253	$ 21,960,312

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2018, amounted to $277,852.

Developer Fee Agreement

On November 23, 2004 the District entered into a First Amendment to Amended and Restated Memorandum of Understanding ("Agreement") with Pinehurst LLC, which established a credit bank for permits issued within the boundaries of the District. The credits issued were applied by the District to the land acquisition of the Evans Ranch Elementary School site. The credit bank was exhausted and a liability was established to reflect the balance due on the site purchase. Pinehurst LLC will reduce the District's liability with future developer fee credits as they are earned. As of June 30, 2018, the outstanding balance on the site purchase was $2,015,610.

Net Other Postemployment Benefits (OPEB) Liability

For the fiscal year ended June 30, 2018, the District reported net OPEB liability, deferred inflows of resources, and OPEB expense for the following plans:

OPEB Plan	Net OPEB Liability	Deferred Inflows of Resources	OPEB Expense
District Plan	$ 1,628,403	$ 14,762	$ (486,453)
Medicare Premium Payment (MPP) Program	665,933	-	(31,504)
Total	$ 2,294,336	$ 14,762	$ (517,957)

District Plan

Plan administration

The District's Governing Board administers the Postemployment Benefits Plan (the Plan) is a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for eligible retirees and their spouses. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

Plan membership

At June 30, 2017, the Plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits payments	41
Active employees	790
	831

Benefits provided

The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Benefits are provided through a third-party insurer, and the full cost of benefits is covered by the plan. The Menifee Union School District's Governing Board (the Governing Board) has the authority to establish and amend the benefit terms as contained within the negotiated labor agreements.

Contributions

The contribution requirements of Plan members and the District are established and may be amended by the District and the Teacher Education Association (TEA), the local California Service Employees Association (CSEA), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually through the agreements with the District, TEA, CSEA, and the unrepresented groups. For fiscal year 2017-2018, the District contributed $536,348 to the Plan, of which was used for current premiums.

Total OPEB Liability of the District

Actuarial assumptions

The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	4.00 percent
Salary increases	3.00 percent, average, including inflation
Discount Rate	3.62 percent, net of OPEB plan investment expense, including inflation
Health care cost trend rates	5.00 percent for 2018

The discount rate was based on the Bond Buyer 20-bond General Obligation Index.

Mortality rates were based on the 2009 CalSTRS Mortality Table for certificated employees and the 2014 CalPERS Active Mortality for Miscellaneous Employees Table for classified employees. Mortality rates vary by age and sex. (Unisex mortality rates are not often used as individual OPEB benefits do not depend on the mortality table used.) If employees die prior to retirement, past contributions are available to fund benefits for employees who live to retirement. After retirement, death results in benefit termination or reduction. Although higher mortality rates reduce service costs, the mortality assumption is not likely to vary from employer to employer.

The actual assumptions used in the June 30, 2018 valuation were based on the results of an actual experience study for the period July 1, 2017 to June 30, 2018.

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at June 30, 2017	$ 2,114,856
Service cost	$ 8,900
Interest	57,866
Changes of assumptions or other inputs	(16,871)
Benefit payments	(536,348)
Net change in total OPEB liability	(486,453)
Balance at June 30, 2018	$ 1,628,403

Sensitivity of the Total OPEB liability to changes in the discount rate

The following presents the Total OPEB liability of the District, as well as what the District's Total OPEB liability would be if it were calculated using a discount rate that is one percent lower or higher than the current discount rate:

Discount Rate	Total OPEB Liability
1% decrease (2.62%)	$ 1,663,213
Current discount rate (3.62%)	1,628,403
1% increase (4.62%)	1,595,085

Sensitivity of the Total OPEB liability to changes in the healthcare cost trend rates

The following presents the District’s proportionate share of the Total OPEB liability calculated using the current discount rate, as well as what the Total OPEB liability would be if it were calculated using Medicare costs trend rates that are one percent lower or higher than the current rates:

Health Care Cost Trend Rates	Total OPEB Liability
1% decrease (4.00%)	$ 1,585,951
Current healthcare cost trend rate (5.00%)	1,628,403
1% increase (6.00%)	1,673,375

OPEB Expense and Deferred Inflows of Resources related to OPEB

At June 30, 2018, the District reported deferred inflow of resources of $14,762 for Changes of assumptions.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30,	Deferred (Inflows) of Resources
2019	$ (2,109)
2020	(2,109)
2021	(2,109)
2022	(2,109)
2023	(2,109)
Thereafter	(4,217)
	$ (14,762)

Medicare Premium Payment (MPP) Program

Plan Description

The Medicare Premium (MPP) Program is administered by the California State Teachers' Retirement System (CalSTRS). The MPP Program is a cost-sharing multiple-employer other postemployment benefit plan (OPEB) established pursuant to Chapter 1032, Statutes 2000 (SB 1435). CalSTRS administers the MPP Program through the Teachers' Health Benefits Fund (THBF).

A full description of the MPP Program regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016, annual actuarial valuation report, Medicare Premium Payment Program Actuarial Valuation. This report and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at: http://www.calstrs.com/member-publications.

Benefits Provided

The MPP Program pays Medicare Part A premiums and Medicare Parts A and B late enrollment surcharges for eligible members of the State Teachers Retirement Plan (STRP) Defined Benefit (DB) Program who were retired or began receiving a disability allowance prior to July 1, 2012 and were not eligible for premium free Medicare Part A. The payments are made directly to the Centers for Medicare and Medicaid Services (CMS) on a monthly basis.

The MPP Program is closed to new entrants as members who retire after July 1, 2012, are not eligible for coverage under the MPP Program.

The MPP Program is funded on a pay-as-you go basis from portion of monthly District benefit payments. In accordance with California *Education Code* Section 25930, benefit payments that would otherwise be credited to the DB Program each month are instead credited to the MPP Program to fund monthly program and administrative costs. Total redirections to the MPP Program are monitored to ensure that total incurred costs do not exceed the amount initially identified as the cost of the program.

Contributions

The MPP Program is funded on a pay-as-you go basis from a portion of monthly District's contributions. In accordance with California Education Code Section 25930, contributions that would otherwise be credited to the DB Program each month are instead credited to the MPP Program to fund monthly program and administrative costs. Total redirections to the MPP Program are monitored to ensure that total incurred costs do not exceed the amount initially identified as the cost of the program.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the OPEB

At June 30, 2018, the District reported a liability of $665,933 for its proportionate share of the net OPEB liability for the MPP Program. The net OPEB liability was measured as of June 30, 2016, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively, was 0.1583 percent and 0.1490 percent, resulting in a net increase in the proportionate share of 0.0093 percent.

For the year ended June 30, 2018, the District recognized OPEB expense of $(31,504).

Actuarial Methods and Assumptions

The total OPEB liability for the MPP Program as of June 30, 2016 was determined based on a financial reporting actuarial valuation that used the June 30, 2016 assumptions presented in the table below. The June 30, 2017 total OPEB liability was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total OPEB liability to June 30, 2017 using the assumptions listed in the following table:

Measurement Date	June 30, 2017	June 30, 2016
Valuation Date	June 30, 2016	June 30, 2016
Experience Study	July 1, 2010 through June 30, 2016	July 1, 2010 through June 30, 2015
Actuarial Cost Method	Entry age normal	Entry age normal
Investment Rate of Return	3.58%	2.85%
Medicare Part A Premium Cost Trend Rate	3.70%	3.70%
Medicare Part B Premium Cost Trend Rate	4.10%	4.10%

For the valuation as of June 30, 2016, CalSTRS used custom mortality tables based on RP2000 Series tables issued by the Society of Actuaries, adjusted to fit CalSTRS specific experience through June 30, 2015. For the valuation as of June 30, 2017, CalSTRS changed the mortality assumptions based on the July 1, 2010, through June 30, 2015, experience study adopted by the board in February 2017. CalSTRS now uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among our members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

Assumptions were made about future participation (enrollment) into the MPP Program because CalSTRS is unable to determine which members not currently participating meet all eligibility criteria for enrollment in the future. Assumed enrollment rates were derived based on past experience and are stratified by age with the probability of enrollment diminishing as the members' age increases. This estimated enrollment rate was then applied to the population of members who may meet criteria necessary for eligibility and are not currently enrolled in the MPP Program. Based on this, the estimated number of future enrollments used in the financial reporting valuation was 571 or an average of 0.32 percent of the potentially eligible population (177,763).

The MPP Program is funded on a pay-as-you-go basis with contributions generally being made at the same time and in the same amount as benefit payments and expenses coming due. Any funds within the MPP Program as of June 30, 2017 and 2016, were to manage differences between estimated and actual amounts to be paid and were invested in the Surplus Money Investment Fund, which is a pooled investment program administered by the State Treasurer.

Discount Rate

The discount rate used to measure the total OPEB liability as of June 30, 2017 and 2016 was 3.58 percent and 2.85 percent, respectively. The MPP Program is funded on a pay-as-you-go basis as described in Note 1, and under the pay-as-you-go method, the OPEB plan's fiduciary net position was not projected to be sufficient to make projected future benefit payments. Therefore, a discount rate of 3.58 percent and 2.85 percent, which is the Bond Buyer 20-Bond GO Index from Bondbuyer.com as of June 30, 2017 and 2016, respectively, was applied to all periods of projected benefit payments to measure the total OPEB liability.

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following represents the District's proportionate share of the net OPEB liability calculated using the current discount rate, as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

Discount Rate	Net OPEB Liability
1% decrease (2.58%)	$ 737,235
Current discount rate (3.58%)	665,933
1% increase (4.58%)	596,578

Sensitivity of the District's proportionate share of the net OPEB liability to changes in the Medicare Costs Trend Rates.

The following presents the District's proportionate share of the net OPEB liability calculated using the current Medicare cost trend rate, as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

Medicare Costs Trend Rate	Net OPEB Liability
1% decrease (2.7% Part A and 3.1% Part B)	$ 601,773
Current medicare costs trend rate (3.7% Part A and 4.1% Part B)	665,933
1% increase (4.7% Part A and 5.1% Part B)	729,453

NOTE 10 - 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 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.

A summary of the CFDs balances at June 30, 2018, is as follows:

Public Finance Authority	
PFA 2016 Series A	$ 37,545,000
PFA 2017 Series	23,295,000
Special Tax Refunding Bonds	
CFD 94-1	9,315,000
CFD 99-1 Zone 1	3,985,000
CFD 99-1 Zone 2	4,660,000
CFD 99-1 Improvement Area A	780,000
CFD 2002-1	4,450,000
CFD 2002-3	3,270,265
CFD 2003-3	2,230,000
Special Tax Bonds	
CFD 2002-2 (Refunded)	6,105,000
CFD 2002-4	2,055,000
CFD 2002-5	5,535,000
CFD 2003-1	2,105,000
CFD 2003-2 A	8,715,000
CFD 2003-2 B	3,095,000
CFD 2003-4	2,545,000
CFD 2004-2	3,915,000
CFD 2004-3	3,850,000
CFD 2004-4	2,095,000
CFD 2004-5	3,895,000
CFD 2004-6	3,520,000
CFD 2005-2	3,955,000
CFD 2006-1	3,910,000
CFD 2006-2	3,340,000
CFD 2006-3	1,665,000
CFD 2006-4	2,495,000
CFD 2011-1 Area 1	16,550,000
CFD 2011-1 Area 2	7,310,000
CFD 2011-1 Area 3	17,580,000
CFD 2014-1	4,205,000
Total	$ 197,970,265

NOTE 11 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Building Fund	Capital Facilities Fund
Nonspendable			
Revolving cash	$ 5,000	$ -	$ -
Stores inventories	-	-	-
Total Nonspendable	5,000	-	-
Restricted			
Legally restricted programs	1,504,721	-	
Capital projects	-	1,911,338	10,566,221
Debt services	-	-	-
Total Restricted	1,504,721	1,911,338	10,566,221
Committed			
Deferred maintenance program	309,907	-	-
Assigned			
Other assignments	3,784,454	-	-
Unassigned			
Economic uncertainties	2,959,012	-	-
Total	$ 8,563,094	$ 1,911,338	$ 10,566,221

Capital Project Fund for Blended Component Units	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
$ -	$ -	$ -	$ 5,000
-		53,166	53,166
-	-	53,166	58,166
		1,522,029	3,026,750
23,927,573		-	36,405,132
-	7,621,142	-	7,621,142
23,927,573	7,621,142	1,522,029	47,053,024
		-	309,907
-		-	3,784,454
-	-	-	2,959,012
$ 23,927,573	$ 7,621,142	$ 1,575,195	$ 54,164,563

NOTE 13 - 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.

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, 2018, 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 2018, the District participated in the Protected Insurance Program for Schools (PIPS). The intent of the PIPS is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the PIPS. 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 14 - EMPLOYEE RETIREMENT SYSTEM

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

For the fiscal year ended June 30, 2018, the District reported net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

Pension Plan	Collective Net Pension Liability	Collective Deferred Outflows of Resources	Collective Deferred Inflows of Resources	Collective Pension Expense
CalSTRS	$ 80,856,865	$ 28,169,438	$ 3,563,716	$ 9,345,477
CalPERS	20,458,154	6,503,221	298,427	3,887,294
Total	$ 101,315,019	$ 34,672,659	$ 3,862,143	$ 13,232,771

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

The District contributes to the State Teachers Retirement Plan (STRP) administered by the California State Teachers' Retirement System (CalSTRS). STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2015, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at: http://www.calstrs.com/member-publications.

Benefits Provided

The STRP provides retirement, disability and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age, and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service.

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program, and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the state is the sponsor of the STRP and obligor of the trust. In addition, the state is both an employer and nonemployer contributing entity to the STRP.

The District contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

The STRP provisions and benefits in effect at June 30, 2018, are summarized as follows:

	STRP Defined Benefit Program	
	On or before	On or after
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 Years of Service	5 Years of Service
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	10.25%	9.205%
Required employer contribution rate	14.43%	14.43%
Required state contribution rate	9.328%	9.328%

Contributions

Required member District and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven year period. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the District's total contributions were $6,590,813.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2018, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related state support and the total portion of the net pension liability that was associated with the District were as follows:

Total Net Pension Liability, Including State Share:

District's proportionate share of net pension liability	$ 80,856,865
State's proportionate share of the net pension liability associated with the District	47,834,238
Total	$ 128,691,103

The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively, was 0.0874 percent and 0.0838 percent, resulting in a net increase in the proportionate share of 0.0036 percent.

For the year ended June 30, 2018, the District recognized pension expense of $9,345,477. In addition, the District recognized pension expense and revenue of $4,814,975 for support provided by the State. At June 30, 2018, the

District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 6,590,813	$ -
Net change in proportionate share of net pension liability	6,299,929	-
Differences between projected and actual earnings on pension plan investments	-	2,153,442
Differences between expected and actual experience in the measurement of the total pension liability	299,017	1,410,274
Changes of assumptions	14,979,679	
Total	$ 28,169,438	$ 3,563,716

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	$ (1,790,237)
2020	1,354,682
2021	195,337
2022	(1,913,224)
Total	$ (2,153,442)

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is seven years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	$ 3,550,708
2020	3,550,708
2021	3,550,708
2022	3,550,709
2023	3,021,554
Thereafter	2,943,964
Total	$ 20,168,351

Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Experience study	July 1, 2010 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.10%
Investment rate of return	7.10%
Consumer price inflation	2.75%
Wage growth	3.50%

CalSTRS uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among its members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (Pension Consulting Alliance-PCA) as an input to the process. The actuarial investment rate of return assumption was adopted by the board in February 2017 in conjunction with the most recent experience study. For each future valuation, CalSTRS consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometrically-linked real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2017, are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	47%	6.30%
Fixed Income	12%	0.30%
Real estate	13%	5.20%
Private Equity	13%	9.30%
Absolute Return/Risk Mitigating Strategies	9%	2.90%
Inflation Sensitive	4%	3.80%
Cash/liquidity	2%	-1.00%

Discount Rate

The discount rate used to measure the total pension liability was 7.10 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.10 percent) and assuming that contributions, benefit payments and administrative expense occurred midyear. Based on these assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

The following presents the District's proportionate share of the net pension liability calculated using the current discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

Discount Rate	Net Pension Liability
1% decrease (6.10%)	$ 118,723,548
Current discount rate (7.10%)	80,856,865
1% increase (8.10%)	50,125,486

California Public Employees Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the School Employer Pool (SEP) Under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law.

A full description of the pension plans regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016 annual actuarial valuation report, Schools Pool Actuarial Valuation. This report and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at: https://www.calpers.ca.gov/page/forms-publications.

Benefits Provided

CalPERS provide service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of service credit, a benefit factor, and the member's final compensation. Members hired on or before December 31, 2012, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or 52 for members hired on or after January 1, 2013), and has at least five years of credited service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The CalPERS provisions and benefits in effect at June 30, 2018, are summarized as follows:

	School Employer Pool (CalPERS)	
	On or before	On or after
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 Years of Service	5 Years of Service
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.00%	6.50%
Required employer contribution rate	15.531%	15.531%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the total District contributions were $1,817,801.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

As of June 30, 2018, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling $20,458,154. The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, was 0.0857 percent and 0.0862 percent, resulting in a net decrease in the proportionate share of 0.0005 percent.

For the year ended June 30, 2018, the District recognized pension expense of $3,887,294. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 1,817,801	$ -
Net change in proportionate share of net pension liability	256,541	57,558
Difference between projected and actual earnings on pension plan investments	707,712	-
Differences between expected and actual experience in the measurement of the total pension liability	732,932	-
Changes of assumptions	2,988,235	240,869
Total	$ 6,503,221	$ 298,427

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	$ (19,177)
2020	816,546
2021	297,886
2022	(387,543)
Total	$ 707,712

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 3.9 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	$ 1,378,118
2020	1,285,556
2021	1,015,607
Total	$ 3,679,281

Actuarial Methods and Assumptions

Total pension liability for the SEP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7.15%
Investment rate of return	7.15%
Consumer price inflation	2.75%
Wage growth	Varies by entry age and service

The mortality table used was developed based on CalPERS-specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first ten years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	47%	5.38%
Global debt securities	19%	2.27%
Inflation Assets	6%	1.39%
Private Equity	12%	6.63%
Real Estate	11%	5.21%
Infrastructure and Forestland	3%	5.36%
Liquidity	2%	-0.90%

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

The following presents the District's proportionate share of the net pension liability calculated using the current discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

Discount rate	Net Pension Liability
1% decrease (6.15%)	$ 30,100,501
Current discount rate (7.15%)	20,458,154
1% increase (8.65%)	12,459,020

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 $3,889,959 (9.328 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS.). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on-behalf contribution rate for CalPERS. 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.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

Litigation

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

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, 2018.

NOTE 16 - 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 the Insurance Authority.

During the year ended June 30, 2018, the District made payments of $625,382 to Riverside Schools' Insurance

Authority, $1,467,671 to Protected Insurance Program for Schools, and $6,763,878 to Self Insurance Schools' of California III for insurance.

NOTE 17 – RESTATEMENT OF PRIOR YEAR NET POSITION

The District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* in the current year. As a result, the effect on the current fiscal year is as follows:

STATEMENT OF NET POSITION		
Net Position- Beginning	$	147,083,065
Inclusion of net OPEB liability from the adoption of GASB Statement No. 75		(3,214,783)
Net Position. Beginning, as restated	$	143,868,282

REQUIRED SUPPLEMENTARY INFORMATION

MENIFEE UNION SCHOOL DISTRICT

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual	Variances - Positive (Negative)
	Original	Final	(GAAP Basis)	Final to Actual
REVENUES				
Local Control Funding Formula	$ 81,131,416	$ 79,162,633	$ 79,203,578	$ 40,945
Federal sources	3,266,358	3,932,682	3,644,304	(288,378)
Other State sources	6,777,221	8,573,941	8,974,288	400,347
Other local sources	4,723,416	4,983,320	5,310,819	327,499
Total Revenues [1]	95,898,411	96,652,576	97,132,989	480,413
EXPENDITURES				
Current				
Certificated salaries	47,471,452	46,542,944	46,380,789	162,155
Classified salaries	13,358,742	13,236,720	13,282,153	(45,433)
Employee benefits	22,887,357	22,466,600	22,220,008	246,592
Books and supplies	3,526,140	6,030,191	5,416,744	613,447
Services and operating expenditures	9,175,454	9,899,997	9,359,135	540,862
Other outgo	(194,098)	(194,098)	252,286	(446,384)
Capital outlay	87,000	28,073	28,054	19
Debt service - principal	1,498,294	1,576,370	1,247,647	328,723
Debt service - interest	-	-	130,647	(130,647)
Total Expenditures [1]	97,810,341	99,586,797	98,317,463	1,269,334
Excess (Deficiency) of Revenues Over Expenditures	(1,911,930)	(2,934,221)	(1,184,474)	1,749,747
Other Financing Sources (Uses)				
Transfers in	66,000	52,500	322,545	270,045
Transfers out	(353,000)	(355,000)	(8,398)	346,602
Net Financing Sources	(287,000)	(302,500)	314,147	616,647
NET CHANGE IN FUND BALANCE	(2,198,930)	(3,236,721)	(870,327)	2,366,394
Fund Balance - Beginning	9,433,421	9,433,421	9,433,421	-
Fund Balance - Ending	$ 7,234,491	$ 6,196,700	$ 8,563,094	$ 2,366,394

See accompanying note to required supplementary information.

[1] Due to the consolidation of Fund 14, Deferred Maintenance for reporting purposes into the General Fund, additional revenues and expenditures pertaining to these other funds are included in the Actual (GAAP Basis) revenues and expenditures, however, are not included in the original and final General Fund budgets.

MENIFEE UNION SCHOOL DISTRICT

SCHEDULE OF CHANGES IN THE DISTRICT'S TOTAL OPEB LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED JUNE 30, 2018

	2017
Total OPEB Liability	
Service cost	$ 8,900
Interest	57,866
Changes of assumptions	(16,871)
Benefit payments	(536,348)
Net change in total OPEB liability	(486,453)
Total OPEB liability - beginning	2,114,856
Total OPEB liability - ending	$ 1,628,403
Covered-employee payroll	N/A[1]
District's total OPEB liability as a percentage of covered-employee payroll	N/A[1]

[1] The District's OPEB Plan is not administered through a trust, and contributions are not made based on a measure of pay; therefore, no measure of payroll is presented.

Note: In the Future, as data become available, ten years of information will be presented.

MENIFEE UNION SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY – MPP PROGRAM FOR THE YEAR ENDED JUNE 30, 2018

Year ended June 30,[1]	2017
District's proportion of the net OPEB liability	0.1583%
District's proportionate share of the net OPEB liability	$ 665,933
District's covered-employee payroll	N/A[1]
District's proportionate share of the net OPEB liability as a percentage of it's covered-employee payroll	N/A[1]
Plan fiduciary net position as a percentage of the total OPEB liability	0.01%

[1] As of June 30, 2012, active members are no longer eligible for future enrollment in the MPP Program; therefore, the covered payroll disclosure is not applicable.

In the future, as data become available, ten years of information will be presented.

MENIFEE UNION SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2018

	2018	2017
CalSTRS		
District's proportion of the net pension liability	0.0874%	0.0838%
District's proportionate share of the net pension liability	$ 80,856,865	$ 67,770,888
State's proportionate share of the net pension liability associated with the District	47,834,238	38,580,758
Total	$ 128,691,103	$ 106,351,646
District's covered - employee payroll	$ 46,519,428	$ 41,439,497
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	173.81%	163.54%
Plan (CalSTRS) fiduciary net position as a percentage of the total pension liability	69%	70%
CalPERS		
District's proportion of the net pension liability	0.0857%	0.0862%
District's proportionate share of the net pension liability	$ 20,458,154	$ 17,018,276
District's covered - employee payroll	$ 10,998,884	$ 10,609,834
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	186.00%	160.40%
Plan (CalPERS) fiduciary net position as a percentage of the total pension liability	72%	74%

Note: In the future, as data become available, ten years of information will be presented.

See accompanying note to required supplementary information.

2016		2015	
	0.0816%		0.0750%
$	54,954,910	$	43,807,701
	29,065,089		26,452,981
$	84,019,999	$	70,260,682
$	36,965,574	$	31,564,659
	148.67%		138.79%
	74%		77%
	0.0840%		0.0813%
$	12,375,927	$	9,235,131
$	9,099,414	$	8,479,987
	136.01%		108.91%
	79%		83%

MENIFEE UNION SCHOOL DISTRICT

SCHEDULE OF DISTRICT CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2018

	2018	2017
CalSTRS		
Contractually required contribution	$ 6,590,813	$ 5,852,144
Contributions in relation to the contractually required contribution	6,590,813	5,852,144
Contribution deficiency (excess)	$ -	$ -
District's covered - employee payroll	$ 45,674,380	$ 46,519,428
Contributions as a percentage of covered - employee payroll	14.43%	12.58%
CalPERS		
Contractually required contribution	$ 1,817,801	$ 1,527,745
Contributions in relation to the contractually required contribution	1,817,801	1,527,745
Contribution deficiency (excess)	$ -	$ -
District's covered - employee payroll	$ 11,704,340	$ 10,998,884
Contributions as a percentage of covered - employee payroll	15.53%	13.89%

Note: In the future, as data become available, ten years of information will be presented.

See accompanying note to required supplementary information.

2016	2015
$ 4,446,458	$ 3,282,543
4,446,458	3,282,543
$ -	$ -
$ 41,439,497	$ 36,965,574
10.73%	8.88%
$ 1,256,947	$ 1,071,092
1,256,947	1,071,092
$ -	$ -
$ 10,609,834	$ 9,099,414
11.85%	11.77%

NOTE 1 - PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

The District employs budget control by object codes and by individual appropriation accounts. Budgets are prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United State of America as prescribed by the Governmental Accounting Standards Board and provisions of the California *Education Code*. The governing board is required to hold a public hearing and adopt an operating budget no later than July 1 of each year. 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.

This schedule presents information for the original and final budgets and actual results of operations, as well as the variances from the final budget to actual results of operations.

Schedule of Changes in the District's Total OPEB Liability and Related Ratios

This schedule presents information on the District's changes in the total OPEB liability, including beginning and ending balances, and the total OPEB liability. In the future, as data becomes available, ten years of information will be presented.

Change in benefit terms – There were no changes in the benefit terms since the previous valuation.

Change of assumptions – There discount rate changed from 3.13 percent in 2017 to 3.62 percent in 2018.

Schedule of the District's Proportionate Share of the Net OPEB Liability-MPP Program

This schedule presents information on the District’s proportionate share of the total OPEB Liability- MPP Program and the plans’ fiduciary net position. In the future, as data becomes available, ten years of information will be presented.

Change in benefit terms – There were no changes in the benefit terms since the previous valuation.

Change of assumptions – The plan rate of investment return assumption was changed from 2.85 percent to 3.58 percent since the previous valuation.

Schedule of the District's Proportionate Share of the Net Pension Liability

This schedule presents information on the District's proportionate share of the net pension liability (NPL), the plans' fiduciary net position and, when applicable, the State's proportionate share of the NPL associated with the District. In the future, as data becomes available, ten years of information will be presented.

Changes in Benefit Terms - There were no changes in benefit terms since the previous valuations for both CalSTRS and CalPERS.

Changes of Assumptions – The CalSTRS plan rate of investment return assumption was changed from 7.60 percent to 7.10 percent since the previous valuation. The CalPERS plan rate of investment return assumption was changed from 7.65 percent to 7.15 percent since the previous valuation.

Schedule of District Contributions

This schedule presents information on the District's required contribution, the amounts actually contributed, and any excess or deficiency related to the required contribution. In the future, as data becomes available, ten years of information will be presented.

SUPPLEMENTARY INFORMATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
Title I, Part A - Basic Grants Low Income and Neglected	84.010	14981	$ 1,341,971
Title II, Part A - Supporting Effective Instruction Local Grants	84.367	14341	67,541
English Language Acquisition State Grants			
Title III - Immigrant Student Program	84.365	15146	8,923
Title III - English Learner Student Program	84.365	14346	111,471
Subtotal English Language Acquisition Grants			120,394
Subtitle B of Title VII of the McKinney-Vento Homeless Assistance Act	84.196	14332	356
Passed through Riverside County Special Education Local Plan Area:			
Special Education (IDEA) Cluster:			
Basic Local Assistance Entitlement, Part B, Section 611	84.027	13379	1,535,757
Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.173	13430	53,430
Preschool Local Entitlement, Part B, Section 611 (Age 3-4-5)	84.027A	13682	209,834
Mental Health Allocation Plan, Part B, Section 611	84.027	14468	145,935
Preschool Staff Development, Part B, Section 619	84.173A	13431	243
Total Special Education (IDEA) Cluster			1,945,199
Total U.S. Department of Education			3,475,461
U.S. DEPARTMENT OF AGRICULTURE			
Passed through CDE:			
Child Nutrition Cluster:			
Especially Needy Breakfast	10.553	13526	391,000
National School Lunch Program	10.555	13524	1,821,240
Total Child Nutrition Cluster			2,212,240
Child and Adult Care Food Program	10.558	13393	14,844
Total U.S. Department of Agriculture			2,227,084
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through California Department of Health Services:			
Medi-Cal Billing Option	93.778	10013	169,463
Total Federal Programs			$ 5,872,008

See accompanying note to supplementary information.

MENIFEE UNION SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2018

ORGANIZATION

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

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Ron Ulibarri	President	2018
Reg Bennett	Vice President	2020
Randall Freeman	Clerk	2018
Jerry Bowman	Deputy Clerk	2018
Robert "Bob" O'Donnell	Member	2020

ADMINISTRATION

Steve Kennedy, Ed.D.	Superintendent
Ambur Borth	Assistant Superintendent, Business Services
Vacant	Assistant Superintendent, Personnel Services
Cindy Woods	Assistant Superintendent, Curriculum and Instruction
Regina Hanson	Director of Fiscal Services

See accompanying note to supplementary information.

MENIFEE UNION SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2018

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	4,456.90	4,467.31
Fourth through sixth	3,209.27	3,215.78
Seventh and eighth	2,035.05	2,034.81
Total Regular ADA	9,701.22	9,717.90
Extended Year Special Education		
Transitional kindergarten through third	4.24	4.24
Fourth through sixth	1.66	1.66
Seventh and eighth	0.41	0.41
Total Extended Year Special Education	6.31	6.31
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	3.80	3.75
Fourth through sixth	2.00	2.17
Seventh and eighth	3.78	3.48
Total Special Education, Nonpublic, Nonsectarian Schools	9.58	9.40
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.11	0.11
Fourth through sixth	0.15	0.15
Seventh and eighth	0.44	0.44
Total Special Education, Nonpublic, Nonsectarian Schools	0.70	0.70
Total ADA	9,717.81	9,734.31

See accompanying note to supplementary information.

SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2018

Grade Level	1986-87 Minutes Requirement	2017-18 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Kindergarten	36,000	38,700	180	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		52,740	180	N/A	Complied
Grade 2		52,740	180	N/A	Complied
Grade 3		54,140	180	N/A	Complied
Grades 4 - 6	54,000				
Grade 4		54,140	180	N/A	Complied
Grade 5		54,140	180	N/A	Complied
Grade 6		54,415	180	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		54,415	180	N/A	Complied
Grade 8		54,415	180	N/A	Complied

See accompanying note to supplementary information.

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2018.

See accompanying note to supplementary information.

MENIFEE UNION SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018

	(Budget) 2019 [1]	2018	2017	2016
GENERAL FUND [3]				
Revenues	$ 105,093,224	$ 97,390,953	$ 93,290,376	$ 89,369,854
Other sources and transfers in	45,000	62,545	39,027	95,853
Total Revenues and Other Sources	105,138,224	97,453,498	93,329,403	89,465,707
Expenditures	101,747,028	98,009,473	95,007,788	89,378,131
Other uses and transfers out	355,000	624,260	5,011	20,492
Total Expenditures and Other Uses	102,102,028	98,633,733	95,012,799	89,398,623
INCREASE (DECREASE) IN FUND BALANCE	$ 3,036,196	$ (1,180,235)	$ (1,683,396)	$ 67,084
ENDING FUND BALANCE	$ 11,289,383	$ 8,253,187	$ 9,433,422	$ 11,116,818
AVAILABLE RESERVES [2]	$ 3,063,061	$ 2,959,012	$ 2,850,384	$ 8,028,759
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	3.00%	3.00%	3.00%	8.98%
LONG TERM OBLIGATIONS [4]	N/A	$105,022,747	$ 108,316,514	$ 78,753,690
K-12 AVERAGE DAILY ATTENDANCE AT P-2	10,033	9,718	9,712	9,352

The General Fund balance has decreased by $2,863,631 over the past two years. The fiscal year 2018-2019 budget projects a further increase of $3,036,196 (36.79 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 deficits in two of the past three years but anticipates incurring an operating surplus during the 2018-2019 fiscal year. Total long-term obligations have increased by $26,269,057 over the past two years.

Average daily attendance has increased by 366 over the past two years. Additional growth of 315 ADA is anticipated during fiscal year 2018-2019.

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[1] Budget 2019 is included for analytical purposes only and has not been subjected to audit.

[2] Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained with the General Fund.

[3] General Fund amounts do not include activity related to the consolidation of the Deferred Maintenance Fund as required by GASB Statement No. 54.

[4] Long-term obligations have been restated as of June 30, 2017 due to the implementation of GASB 75.

See accompanying note to supplementary information.

MENIFEE UNION SCHOOL DISTRICT

SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2018

Name of Charter School	Included in Audit Report
Santa Rosa Charter School	No

See accompanying note to supplementary information.

MENIFEE UNION SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2018

	Child Development Fund	Cafeteria Fund	Total Non-Major Governmental Funds
ASSETS			
Deposits and investments	$ 23,019	$ 1,042,444	$ 1,065,463
Receivables	146,675	395,297	541,972
Due from other funds	-	2,309	2,309
Stores inventories	-	53,166	53,166
Total Assets	$ 169,694	$ 1,493,216	$ 1,662,910
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 3,193	$ 34,966	$ 38,159
Due to other funds	31,936	17,620	49,556
Total Liabilities	35,129	52,586	87,715
Fund Balances:			
Nonspendable	-	53,166	53,166
Restricted	134,565	1,387,464	1,522,029
Total Fund Balances	134,565	1,440,630	1,575,195
Total Liabilities and Fund Balances	$ 169,694	$ 1,493,216	$ 1,662,910

See accompanying note to supplementary information.

MENIFEE UNION SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2018

	Child Development Fund	Cafeteria Fund	Total Non-Major Governmental Funds
REVENUES			
Federal sources	$ -	$ 2,227,083	$ 2,227,083
Other State sources	697,132	166,892	864,024
Other local sources	2,211	942,135	944,346
Total Revenues	699,343	3,336,110	4,035,453
EXPENDITURES			
Current			
Instruction	376,518	-	376,518
Instruction-related activities:			
Supervision of instruction	193,257	-	193,257
Pupil services:			
Food services	-	3,112,351	3,112,351
All other pupil services	15,524	-	15,524
General administration:			
All other general administration	29,469	161,033	190,502
Plant services	-	518	518
Total Expenditures	614,768	3,273,902	3,888,670
Excess of Revenues Over Expenditures	84,575	62,208	146,783
Other Financing Sources			
Transfers in	-	8,398	8,398
NET CHANGE IN FUND BALANCES	84,575	70,606	155,181
Fund Balances - Beginning	49,990	1,370,024	1,420,014
Fund Balances - Ending	$ 134,565	$ 1,440,630	$ 1,575,195

See accompanying note to supplementary information.

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2018

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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The District has not elected to use the ten percent de minimis cost rate as covered in Section 200.414 Indirect (F&A) costs of the Uniform Guidance.

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts consist primarily of (Medi-Cal Billing Option Program) funds that in the previous period were recorded as revenues but were unspent. These unspent balances have been expended in the current period.

Description	CFDA Number	Amount
Total Federal Revenues Statement of Revenues, Expenditures and Changes in Fund Balance:		$ 5,871,387
Medi-Cal Billing Option	93.778	621
Total Schedule of Expenditures of Federal Awards		$ 5,872,008

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. The District neither met nor exceeded its target funding. 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 the 1986-87 requirements, as required by *Education Code* Section 46201.

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 - Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances

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

INDEPENDENT AUDITOR'S REPORTS

VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

VALUE THE difference

INDEPENDENT AUDITOR'S 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 School District
Menifee, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Menifee Union School District (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Menifee Union School District's basic financial statements, and have issued our report thereon dated December 4, 2018.

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 1 and Note 17 to the financial statements, in 2018, the District adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension.* Our opinion is not modified with respect to this matter.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Menifee Union School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Menifee Union School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Menifee Union School District's internal control.

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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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Menifee Union School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 4, 2018

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Governing Board
Menifee Union School District
Menifee, California

Report on Compliance for Each Major Federal Program

We have audited Menifee Union School District's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Menifee Union School District's major Federal programs for the year ended June 30, 2018. Menifee Union School District's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its Federal awards applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Menifee Union School District's major Federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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We believe that our audit provides a reasonable basis for our opinion on compliance for each major Federal program. However, our audit does not provide a legal determination of Menifee Union School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Menifee Union School District complied, in all material respects, with the types of 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, 2018.

Report on Internal Control Over Compliance

Management of Menifee Union School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Menifee Union School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 Menifee Union 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 a 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 4, 2018

VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Menifee Union School District
Menifee, California

Report on State Compliance

We have audited Menifee Union School District's (the District) compliance with the types of compliance requirements as identified in the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of the Menifee Union School District's State government programs as noted below for the year ended June 30, 2018.

Management's Responsibility

Management is responsible for compliance with the requirements of State laws, regulations, and the terms and conditions of its State awards applicable to its State programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Menifee Union School District's State programs based on our audit of the types of compliance requirements referred to above. 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 *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about Menifee Union 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 opinions. Our audit does not provide a legal determination of Menifee Union School District's compliance with those requirements.

Basis for Qualified Opinion on Unduplicated Local Control Funding Formula Pupil Count

As described in the accompanying schedule of findings and questioned costs, as item 2018-001, Menifee Union School District did not comply with requirements regarding Unduplicated Local Control Funding Formula Pupil Count, finding 2018-001. Compliance with such requirements is necessary, in our opinion, for Menifee Union School District to comply with the requirements applicable to that program.

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Qualified Opinion on Unduplicated Local Control Funding Formula Pupil Count

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Menifee Union School District complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2018.

Unmodified Opinion on Each of the Other Programs

In our opinion, Menifee Union School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2018, except as described in the Schedule of State Awards Findings and Questioned Costs section of the accompanying Schedule of Findings and Questioned Costs.

In connection with the audit referred to above, we selected and tested transactions and records to determine the Menifee Union School District's compliance with the State laws and regulations applicable to the following items:

	Procedures Performed
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	No, see below
Continuation Education	No, see below
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	No, see below
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	No, see below
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Apprenticeship: Related and Supplemental Instruction	No, see below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After/Before School Education and Safety Program:	
General Requirements	No, see below
After School	No, see below
Before School	No, see below

	Procedures Performed
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No, see below
CHARTER SCHOOLS	
Attendance	No, see below
Mode of Instruction	No, see below
Non Classroom-Based Instruction/Independent Study for Charter Schools	No, see below
Determination of Funding for Non Classroom-Based Instruction	No, see below
Annual Instruction Minutes Classroom-Based	No, see below
Charter School Facility Grant Program	No, see below

The District does not offer an Independent Study Program; therefore, we did not perform procedures related to the Independent Study Program.

The District does not offer a Continuation Program; therefore, we did not perform procedures related to Continuation Education Attendance Program.

The District did not offer an Early Retirement Incentive Program during the current year; therefore, we did not perform procedures related to the Early Retirement Incentive Program.

The District does not have any Juvenile Court Schools; therefore, we did not perform any procedures related to Juvenile Court Schools.

The District does not have any Middle or Early College High Schools; therefore, we did not perform any procedures related to Middle or Early College High Schools.

The District does not offer an Apprenticeship Program; therefore, we did not perform any procedures for the Apprenticeship Program.

The District does not offer a Before and After School Education and Safety Program; therefore, we did not perform any procedures related to the Before and After School Education and Safety Program.

The District does not offer an Independent Study- Course based Program; therefore, we did not perform procedures related to the Independent Study- Course based Program.

The District does not have any Charter Schools; therefore, we did not perform any procedures for Charter School Programs.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 4, 2018

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MENIFEE UNION SCHOOL DISTRICT

SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2018

FINANCIAL STATEMENTS

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness identified?	No
Significant deficiency identified?	None reported
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major Federal programs:	
Material weakness identified?	No
Significant deficiency identified?	None reported
Type of report issued on compliance for major Federal programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a) of the Uniform Guidance?	No

Identification of major Federal programs:

CFDA Numbers	Name of Federal Program or Cluster
84.027, 84.173, 84.027A, 84.173A	Special Education Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	$ 750,000
Auditee qualified as low-risk auditee?	Yes

STATE AWARDS

Type of auditor's report issued on compliance for State programs:	Unmodified

Unmodified for all programs except for the following program which was qualified:

Name of Program
Unduplicated Local Control Fund Formula Pupil Counts

MENIFEE UNION SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

None reported.

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

None reported.

STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

The following findings represent instances of noncompliance and/or questioned costs relating to State program laws and regulations. The findings have been coded as follows:

Five Digit Code	AB 3627 Finding Type
4000	State Compliance

2018-001 Code

4000 State Compliance

Criteria or Specific Requirements

California Education Code Section 42238.02(b)(4) states that the school districts should revise their submitted data on English learner, foster youth, and free or reduced-price meal eligible pupil counts to ensure the accuracy of data reflected in the California Longitudinal Pupil Achievement Data System.

Condition

The Unduplicated Local Control Funding Formula Pupil Counts submitted to the California Department of Education was inaccurate. It appears that the District inaccurately reported eligibility for a total of 116 students for Free and Reduce students on CALPADS Form 1.18 – FRPM/English Learner/Foster Youth – Student List.

Questioned Costs

The District over claimed the total eligible pupils by 279, resulting in a decrease of approximately $59,339 in LCFF funding.

Context

The condition was determine through a selection of students from Form 1.18 based on the criteria as stated on the *Standards and Procedures for Audits of California K-12 Local Educations Agencies 2017-2018* Section 19849(a)(2): “Select a representative sample to achieve a high level of assurance, from students that are only Free and Reduced eligible as identified under the “Free and Reduced” column and verify there is supporting documentation that indicates the student was eligible for the designation.”

The auditor selected a sample of 50 students and obtained student records to support the Free and Reduced designation. Upon review of student records, we found seven students who were noted as Free and Reduced status; however, the students were note as paid in the system. The auditor inquired further with the District and determined that the CALPADS data was not updated to reflect students who had been reclassified during the year. The auditor requested that the District identify all remaining students whose status should have been changed to reflect the reclassification from Free and Reduced. The auditor obtained this list and noted 279 students whose status should have been changed in the CALPADs from free and Reduced to another designation.

Effect

The District does not appear to be in compliance with *Education Code* Section 42238.02(b)(4). In addition, the District appears to be over claiming the total Free and Reduced designated pupils by 279 students for a reduction in funding of approximately $59,339.

School	Enrollment Count	Certified Total Unduplicated Count	Adjusted Based on Eligibility for FRPM	Adjusted Total Unduplicated Count	Adjusted Total Enrollment Count
Bell Mountain Middle	1,245	586	(52)	534	1,245
Callie Kirkpatrick Elementary	692	323	(27)	296	692
Chester W. Morrison Elementary	422	227	(13)	214	422
Evans Ranch Elementary	658	368	(19)	349	658
Freedom Crest Elementary	727	417	(13)	404	727
Hans Christensen Middle	781	554	(24)	530	781
Harvest Hill S.T.E.A.M. Academy	599	244	(14)	230	599
Herk Bouris Elementary	964	400	(17)	383	964
Menifee Valley Middle	1,169	616	(36)	580	1,169
NPS School Group for Menifee Union Elementary	11	2	-	2	11
Oak Meadows Elementary	899	397	(26)	371	899
Quail Valley Elementary	519	446	(14)	432	519
Ridgemoor Elementary	639	350	(14)	336	639
Southshore Elementary	793	278	(10)	268	793
	10,118	5,208	(279)	4,929	10,118

Cause

It appears that the condition identified has materialized as a result of the CALPADS system not being updated properly to reflect the change in designation of Free and Reduced students.

Recommendation

The District should ensure that students Free and Reduced meal applications properly reflect their designation in CALPADS by updating the students who have changed designations throughout the year.

Corrective Action Plan

The District will update CALPADS throughout the year to ensure that the students' designation is accurately reflected in the system and matches the Free and Reduced meal application status.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

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