



**MENIFEE UNION ELEMENTARY
SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2007



MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

OF RIVERSIDE COUNTY

MENIFEE, CALIFORNIA

JUNE 30, 2007

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Fred Twyman	President	2008
Victor Giardinelli	Vice President	2008
Phoebe Ireby	Member	2008
Robert O'Donnell	Member	2010
Rita Peters	Member	2010

ADMINISTRATION

Linda C. Callaway, Ed.D.	Superintendent
Daniel Wood	Assistant Superintendent, Business
Gil Compton	Assistant Superintendent, Personnel Services
Karen Valdes	Assistant Superintendent, Curriculum and Instruction
Jeanne Bargman	Director of Pupil Personnel Services
Pam Gillette	Director of Fiscal Services



MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

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MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

Governing Board
Menifee Union Elementary School District
Menifee, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Menifee Union Elementary School District (the "District") as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2006-07* issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Menifee Union Elementary School District, as of June 30, 2007, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2007, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The required supplementary information, such as management's discussion and analysis on pages 4 through 12 and budgetary comparison information on page 59, are not a required part of the basic financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

The supplementary information-unaudited listed in the table of contents as Combining Statements- Non-Major-Governmental Funds is presented for purposes of additional analysis, and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them.

Vawter, Tinsley & Day, Co., LLP

Rancho Cucamonga, California
November 23, 2007



MENIFEE UNION SCHOOL DISTRICT

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

Menifee Pride
Working For You

Superintendent
Linda C. Callaway, Ed.D.

This section of Menifee Union Elementary School District's (audited) annual financial report presents our discussion and analysis of the Menifee Union Elementary School District's financial performance during the fiscal year that ended on June 30, 2007. Please read it in conjunction with the District's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

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

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

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

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

The *Fiduciary Activities* are agency funds, which only report a balance sheet and do not have a measurement focus.

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

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

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Assets and the Statement of Activities

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

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007

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

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

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

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

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

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

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007

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 separate *Statement of Fiduciary Net Assets*. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE DISTRICT AS A WHOLE

Net Assets

The District's net assets were \$162.8 million for the fiscal year ended June 30, 2007. Of this amount, \$7.6 million was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the governing school board's ability to use those net assets for day-to-day operations. Our analysis below focuses on the net assets (Table 1) and change in net assets (Table 2) of the District's governmental activities.

Table 1

	Governmental Activities	
	2007	2006
ASSETS		
Current and other assets	\$ 64,744,188	\$ 79,336,118
Capital assets	124,080,457	99,659,813
Total Assets	188,824,645	178,995,931
LIABILITIES		
Current liabilities	3,947,188	8,721,691
Long-term obligations	22,087,684	96,866,290
Total Liabilities	26,034,872	105,587,981
NET ASSETS		
Invested in capital assets, net of related debt	102,214,423	2,972,801
Restricted	52,931,334	64,925,999
Unrestricted	7,644,016	5,509,150
Total Net Assets	\$ 162,789,773	\$ 73,407,950

The \$7.6 million in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. As discussed in Note 17, the District has changed its reporting of CFD debt.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007

Changes in Net Assets

The results of this year's operations for the District as a whole are reported in the *Statement of Activities* on page 14.

Table 2

	Governmental Activities	
	2007	2006
Revenues		
Program revenues:		
Charges for services	\$ 2,022,959	\$ 1,583,968
Operating grants and contributions	11,208,087	8,411,104
Capital grants and contributions	3,814,459	7,177,124
General revenues:		
State revenue limit sources	44,166,719	34,062,828
Property and other taxes	6,324,411	6,531,351
Other general revenues	22,451,957	11,769,604
Total Revenues	89,988,592	69,535,979
Expenses		
Instruction-related	46,672,764	39,417,747
Pupil services	5,373,481	4,456,929
Administration	4,546,189	4,067,478
Plant	6,276,480	5,216,019
Interest on long-term obligations and other outgo	3,020,065	20,787,109
Total Expenses	65,888,979	73,945,282
Change in Net Assets	\$ 24,099,613	\$ (4,409,303)

Governmental Activities

As reported in the *Statement of Activities* on page 14 the cost of all of our governmental activities this year was \$65.9 million. Program revenues supported this amount by contributing revenues from Charges for services. Operating grants and contributions, as well as, Capital grants and contributions totaling \$17.0 million. We paid the remaining costs totaling \$48.8 million with general revenues including property taxes and State aid. This is evident on the Statement of Activities under the heading Net Expenses.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007

In Table 3, we have presented the cost of each of the District's seven largest functions – instruction, instruction-related activities, pupil services, general administration, plant services, facilities acquisition and construction, and interest on long-term obligations. 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	
	2007	2006
Instruction	\$ 29,904,668	\$ 21,177,564
Instruction-related activities	5,023,713	4,472,121
Other pupil services	1,844,775	1,922,174
General administration	3,881,171	3,626,371
Plant services	6,004,391	4,945,840
Facility acquisition and construction	-	7,016,334
Interest on long-term obligations and other	2,184,756	13,612,682
Totals	\$ 48,843,474	\$ 56,773,086

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007

THE DISTRICTS FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$61.1 million as detailed below:

Table 4

	Fund Balance	
	June 30,	
	2007	2006
General	\$ 10,965,383	\$ 6,348,081
Capital Facilities	29,371,112	16,455,369
County School Facilities	2,497	1,907
Capital Project for Blended Component Units	18,167,113	31,418,207
Child Development	54,853	54,365
Cafeteria	541,812	350,293
Deferred Maintenance	149,527	175,396
Special Reserve Fund for Other than Capital Outlay	35,407	33,652
Building	567,501	6,004,107
Bond Interest and Redemption	697,985	871,982
COP Debt Service	592,435	592,402
Totals	\$ 61,145,625	\$ 62,305,761

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 June 2007. (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 59.)

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007

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 and provides most of the salary, benefits, curriculum support, and ordinary operations for the District.
- The Capital Facilities Fund provided the largest portion of funding for Elementary School #7's portable classrooms, preschool facility, and beginning construction costs of Elementary Schools #8 and #11. This fund also allowed the acquisition of ten natural gas buses.
- Even though the County Schools Facilities Fund is not determined as a major fund this year, the District would like to comment on our use of \$3.8 million received in State Fund releases which partially funded 29 portable classrooms at two elementary sites and two middle school sites.
- The Capital Project Fund for Blended Component Units is used to pay for land purchases and new construction.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2007, the District had \$124.0 million in a broad range of capital assets, including land, buildings, and equipment.

Table 5

(Net of Accumulated Depreciation)

	Governmental Activities	
	2007	2006
Land and construction in process	\$ 51,595,816	\$ 39,926,447
Buildings and improvements/site improvements	68,226,320	56,558,189
Equipment	4,258,321	3,175,177
Totals	\$ 124,080,457	\$ 99,659,813

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007

Long-Term Obligations

At the end of this year, the District had \$22.1 million in long-term obligations outstanding versus \$22.5 million last year. Those long-term obligations consisted of the following:

	Governmental Activities	
	2007	2006
General obligation bonds (financed with property taxes)	\$ 14,361,034	\$ 14,496,954
Certificates of participation	7,505,000	7,800,000
Compensated absences	221,650	179,278
Totals	\$ 22,087,684	\$ 22,476,232

The District's general obligation bond rating with Fitch is A+, and with S&P it is an A-. The State limits the amount of general obligation bonds that districts can issue to five percent of the assessed value of all taxable property within the district's boundaries. The District's outstanding general obligation bonds of \$14.4 million are significantly below this statutorily-imposed limit.

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2006-2007

Significant Accomplishments:

- Began construction of Elementary Schools #8 and #11
- Completed construction of a Preschool Facility at Evans Ranch Elementary
- Acquired ten (10) new CNG Buses
- Nearly completed projects of the District's General Obligation Bond, one restroom for Meniffee Elementary School, and computers and technology equipment for all five original schools in the District.

FACTORS BEARING ON THE DISTRICT'S FUTURE

Although the budget for 2007-2008 will inevitably be changing, following are some of the key budget assumptions made at time of budget development:

- Average Daily Attendance projected at 8,764, growth of 7.75 percent over the prior year.
- Revenue Limit and Categorical cost of living adjustment (COLA) estimated at 4.53 percent with no deficit or change to equalization funding.
- Staffing based on the following formulas:
 - Kindergarten 20:1
 - Grades 1-2-3 20:1
 - Grades 4-5 20:1
 - Middle School 6-8 30:1
- Negotiations with both bargaining units have not been settled as of this printing.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and 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 additional financial information, contact Dan Wood, Assistant Superintendent of Business Services, at Menifee Union Elementary School District, 30205 Menifee Road, Menifee, CA 92584, or e-mail at dwood@menifeeusd.org.

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MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

JUNE 30, 2007

	Governmental Activities
Assets	
Deposits and investments	\$ 57,373,326
Receivables	7,353,481
Stores inventories	17,381
Capital Assets:	
Land and construction in process	51,595,816
Other capital assets	86,158,049
Less: Accumulated depreciation	<u>(13,673,408)</u>
Total Capital Assets	<u>124,080,457</u>
Total Assets	<u><u>188,824,645</u></u>
Liabilities	
Accounts payable	3,533,204
Accrued interest	348,625
Deferred revenue	65,359
Long-term Obligations:	
Current portion	302,814
Noncurrent portion	<u>21,784,870</u>
Total Long-term Obligations	<u>22,087,684</u>
Total Liabilities	<u><u>26,034,872</u></u>
Net Assets	
Invested in capital assets, net of related debt	102,214,423
Restricted for:	
Debt service	1,290,420
Capital projects	48,105,726
Educational programs	2,186,088
Other activities	1,349,100
Unrestricted	<u>7,644,016</u>
Total Net Assets	<u><u>\$ 162,789,773</u></u>

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

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Instruction	\$ 40,841,807	\$ 99,644	\$ 7,023,036	\$ 3,814,459
Instruction-related activities:				
Supervision of instruction	1,305,954	-	690,131	-
Instructional library, media, and technology	539,273	-	117,113	-
School site administration	3,985,730	-	-	-
Pupil services:				
Home-to-school transportation	1,690,506	227,053	643,137	-
Food services	1,874,019	1,067,663	930,416	-
All other pupil services	1,808,956	-	660,437	-
General administration:				
Data processing	535,977	-	-	-
All other general administration	4,010,212	115,849	549,169	-
Plant services	6,276,480	4,124	267,965	-
Interest on long-term obligations	488,520	-	-	-
Other outgo	2,531,545	508,626	326,683	-
Total Governmental Activities	\$ 65,888,979	\$ 2,022,959	\$ 11,208,087	\$ 3,814,459

General revenues and subventions:

- Property taxes, levied for general purposes
- Property taxes, levied for debt service
- State aid not restricted to specific purposes
- Interest and investment earnings
- Contributions from property owners
- Miscellaneous

Total General Revenues and Subventions

Change in Net Assets

- Net Assets - Beginning (Restated)
- Net Assets - Ending

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

**Net (Expenses)
Revenues and
Changes in
Net Assets**

**Governmental
Activities**

\$	(29,904,668)
	(615,823)
	(422,160)
	(3,985,730)
	(820,316)
	124,060
	(1,148,519)
	(535,977)
	(3,345,194)
	(6,004,391)
	(488,520)
	(1,696,236)
	<u>(48,843,474)</u>
	5,746,989
	577,422
	44,166,719
	388,154
	15,426,946
	6,636,857
	<u>72,943,087</u>
	24,099,613
	138,690,160
\$	<u><u>162,789,773</u></u>

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2007**

	General Fund	Capital Facilities Fund	County School Facilities Fund
ASSETS			
Deposits and investments	\$ 5,522,739	\$ 27,273,057	\$ 2,424
Receivables	6,773,471	391,993	73
Due from other funds	9,394	3,880,422	-
Stores inventories	-	-	-
Total Assets	\$ 12,305,604	\$ 31,545,472	\$ 2,497
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 1,274,862	\$ 2,167,959	\$ -
Due to other funds	-	6,401	-
Deferred revenue	65,359	-	-
Total Liabilities	1,340,221	2,174,360	-
FUND BALANCES			
Reserved	2,188,588	-	-
Unreserved:			
Designated	5,298,319	29,371,112	2,497
Undesignated, reported in:			
General Fund	3,478,476	-	-
Debt Service Funds	-	-	-
Capital Projects Funds	-	-	-
Total Fund Balance	10,965,383	29,371,112	2,497
Total Liabilities and Fund Balances	\$ 12,305,604	\$ 31,545,472	\$ 2,497

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

Capital Projects for Blended Component Units	Non-Major Governmental Funds	Total Governmental Funds
\$ 22,047,535	\$ 2,527,571	\$ 57,373,326
-	187,944	7,353,481
-	620	3,890,436
-	17,381	17,381
<u>\$ 22,047,535</u>	<u>\$ 2,733,516</u>	<u>\$ 68,634,624</u>

\$ -	\$ 90,383	\$ 3,533,204
3,880,422	3,613	3,890,436
-	-	65,359
<u>3,880,422</u>	<u>93,996</u>	<u>7,488,999</u>

-	17,381	2,205,969
-	1,331,719	36,003,647
-	-	3,478,476
-	1,290,420	1,290,420
18,167,113	-	18,167,113
<u>18,167,113</u>	<u>2,639,520</u>	<u>61,145,625</u>
<u>\$ 22,047,535</u>	<u>\$ 2,733,516</u>	<u>\$ 68,634,624</u>

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MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2007**

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

Total Fund Balance - Governmental Funds		\$ 61,145,625
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	\$ 137,753,865	
Accumulated depreciation is	<u>(13,673,408)</u>	
Total Capital Assets		124,080,457
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.		(348,625)
Long-term obligations, including general obligation bonds, are not due and payable in the current period and, therefore, are not reported as obligations in the funds.		
Long-term obligations at year-end consist of:		
General obligation bonds	14,189,123	
Certificates of participation	7,505,000	
Compensated absences	221,650	
Unamortized premium/deferred amount on refunding	<u>171,911</u>	
Total Long-term Obligations		(22,087,684)
Total Net Assets - Governmental Activities		<u>\$ 162,789,773</u>

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

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2007**

	General Fund	Capital Facilities Fund
REVENUES		
Revenue limit sources	\$ 43,598,294	\$ -
Federal sources	2,342,821	-
Other State sources	11,536,055	-
Other local sources	5,011,272	3,297,036
Total Revenues	62,488,442	3,297,036
EXPENDITURES		
Current		
Instruction	38,466,724	-
Instruction-related activities:		
Supervision of instruction	1,204,104	-
Instructional library, media, and technology	550,060	-
School site administration	3,983,526	-
Pupil services:		
Home-to-school transportation	2,111,690	-
Food services	-	-
All other pupil services	1,804,139	-
General administration:		
Data processing	538,731	-
All other general administration	2,935,205	244,184
Plant services	5,717,644	36,000
Facility acquisition and construction	-	12,977,762
Other outgo	209,317	-
Debt service		
Principal	-	-
Interest and other	-	-
Total Expenditures	57,521,140	13,257,946
Excess (Deficiency) of Revenues Over Expenditures	4,967,302	(9,960,910)
Other Financing Sources (Uses):		
Transfers in	-	23,438,281
Other sources-Contributions from property owners	-	-
Transfers out	(350,000)	(561,628)
Other uses	-	-
Net Financing Sources (Uses)	(350,000)	22,876,653
NET CHANGE IN FUND BALANCES	4,617,302	12,915,743
Fund Balance - Beginning Restated	6,348,081	16,455,369
Fund Balance - Ending	\$ 10,965,383	\$ 29,371,112

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

County School Facilities Fund	Capital Project for Blended Component Units Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 43,598,294
-	-	955,137	3,297,958
3,811,169	-	660,919	16,008,143
3,291	1,380,482	1,965,170	11,657,251
<u>3,814,460</u>	<u>1,380,482</u>	<u>3,581,226</u>	<u>74,561,646</u>
-	-	216,144	38,682,868
-	-	101,815	1,305,919
-	-	-	550,060
-	-	-	3,983,526
-	-	-	2,111,690
-	-	1,868,149	1,868,149
-	-	4,612	1,808,751
-	-	-	538,731
-	702,146	112,573	3,994,108
-	-	641,514	6,395,158
1,919	11,313,573	1,714,972	26,008,226
-	-	-	209,317
-	-	470,000	470,000
-	-	899,997	899,997
<u>1,919</u>	<u>12,015,719</u>	<u>6,029,776</u>	<u>88,826,500</u>
<u>3,812,541</u>	<u>(10,635,237)</u>	<u>(2,448,550)</u>	<u>(14,264,854)</u>
-	-	911,628	24,349,909
-	15,426,946	-	15,426,946
(3,811,951)	(15,720,575)	(3,905,755)	(24,349,909)
-	(2,322,228)	-	(2,322,228)
<u>(3,811,951)</u>	<u>(2,615,857)</u>	<u>(2,994,127)</u>	<u>13,104,718</u>
590	(13,251,094)	(5,442,677)	(1,160,136)
1,907	31,418,207	8,082,197	62,305,761
<u>\$ 2,497</u>	<u>\$ 18,167,113</u>	<u>\$ 2,639,520</u>	<u>\$ 61,145,625</u>

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE DISTRICT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2007

Total Net Change in Fund Balances - Governmental Funds **\$ (1,160,136)**

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

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

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

Capital outlays	\$ 26,862,205	
Depreciation expense	<u>(2,441,561)</u>	
		24,420,644

In the statement of activities, certain operating expenses - compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). (42,372)

Governmental funds report the effect of premiums, discounts, issuance costs, and the deferred amount on a refunding when the debt is first issued, whereas the amounts are deferred and amortized in the statement of activities. This amount is the net effect of these related items:

Deferred amount on refunding	(100,815)	
Premium on issuance	<u>7,814</u>	
Combined adjustment		(93,001)

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

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE DISTRICT-WIDE STATEMENT OF ACTIVITIES, Continued FOR THE YEAR ENDED JUNE 30, 2007

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

General obligation bonds	\$ 175,000
Certificates of participation	295,000

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

Change in accrued interest	\$ 551,372	
Accretion on the capital appreciation General Obligation Bonds	<u>(46,894)</u>	
		504,478
Change in Net Assets of Governmental Activities		<u><u>\$ 24,099,613</u></u>

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

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2007**

	Agency Funds		
	Debt Service Special Tax Bonds	Joint CFD	Associated Student Body
ASSETS			
Deposits and investments	<u>\$ 11,806,860</u>	<u>\$ 4,530,949</u>	<u>\$ 85,661</u>
LIABILITIES			
Due to Developers	\$ 727,494	\$ -	\$ -
Due to Bond holders	11,079,366	-	-
Due to other agencies	-	4,530,949	-
Due to student groups	-	-	85,661
	<u>\$ 11,806,860</u>	<u>\$ 4,530,949</u>	<u>\$ 85,661</u>

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

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

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

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

Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. For financial reporting purposes the component units discussed below are reported in the District's financial statements because of the significance of their relationship with the District. The component units, although legally separate entities, are reported in the financial statements as if they were part of the District's operations because the governing board of the component units is essentially the same as the governing board of the District and because their purpose is to finance the construction of facilities to be used for the benefit of the District.

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

Pursuant to the Mello-Roos Community Facilities Act of 1982, the District established Community Facilities Districts (CFD) 94-1, 99-1 Zone 1 A and B, and 99-1 Improvement Area A. The Authority subsequently issued refunding bonds for these CFD's. In addition the District established CFD's 2002-2 through 5, 2003-1 through 4, 2004-2 through 5, 2005-2 and 2006-3. Each CFD is a legally constituted governmental entity formed for the purpose of financing special capital projects. The Community Facilities Districts were authorized, at special elections, to incur indebtedness and subsequently sold bonds for the purpose of providing educational facilities within the District boundaries.

Financial Presentation

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

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

Other Related Entities

Joint Powers Agencies The District is associated with three joint powers agencies. These organizations do not meet the criteria for inclusion as component units of the District. Additional information is presented in Note 16 to the financial statements. These organizations are:

- Riverside Schools Insurance Authority (RSIA)
- Self Insurance Schools of California III (SISC III)
- Western Riverside County Self-Insurance Program for Employees (WRCSIPE)

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 governmental funds:

Major Governmental Funds

General Fund The General Fund accounts for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the District for any purpose provided it is expended or transferred according to the general laws of California.

Capital Facilities Fund The Capital Facilities Fund is used to account for resources received from developer impact fees assessed under provisions of the California Government Code and California Education Code.

County School Facilities Fund The County School Facilities Fund is used primarily to account separately for State apportionments provided for construction and reconstruction of school facilities (Education Code Sections 17010.10 – 17076.10).

Capital Project for Blended Component Units Fund The Capital Project for Blended Component Units Fund is used to account for capital projects financed by Mello-Roos Community Facilities Districts.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

Non-Major Governmental Funds

Special Revenue Fund The Special Revenue Fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The District maintains the following special revenue funds:

Child Development Fund The Child Development Fund is used to account for resources committed to child development programs maintained by the District.

Cafeteria Fund The Cafeteria Fund is used to account for the financial transactions related to the food service operations of the District.

Deferred Maintenance Fund The Deferred Maintenance Fund is used for the purpose of major repair or replacement of District property.

Special Reserve Fund for Other than Capital Outlay The Special Reserve Fund for Other than Capital Outlay is used to provide for the accumulation of General Fund monies for general operating purposes.

Capital Project Fund The Capital Project Funds are used to account for the acquisition and/or construction of all major governmental fixed assets. The District maintains the following capital project funds:

Building Fund The Building Fund exists primarily to account separately for proceeds from sale of bonds and the acquisition of major governmental capital facilities and buildings.

Debt Service Funds The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. The District maintains the following debt service funds:

Bond Interest and Redemption Fund The Bond Interest and Redemption Fund is used to account for the accumulation of resources for, and the repayment of, district bonds, interest, and related costs.

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

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

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

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

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

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

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. 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.

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

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

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

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

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

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 60 or 90 days. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to state-aid apportionments, the California Department of Education has defined available for districts as collectible within one year.

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

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

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

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

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

Cash and Cash Equivalents

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

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

Investments

Investments held at June 30, 2007, 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.

Restricted Assets

Restricted assets arise when restrictions on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets in the general fund represent cash and cash equivalents required by Federal and State agencies to be set-aside by the District for the purpose of satisfying certain requirements of the Federal and State programs.

Store Inventories

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

Capital Assets and Depreciation

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

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

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

Interfund Balances

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

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

Compensated Absences

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

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.

Accrued Liabilities and Long-Term Obligations

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

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

Deferred Issuance Costs, Premiums, and Discounts

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

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

Fund Balance Reserves and Designations

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

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

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

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The government-wide financial statements reports \$52,931,334 of restricted net assets.

Interfund Activity

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

Estimates

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

Budgetary Data

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

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

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

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 in behalf of the District. Local property tax revenues are recorded when received.

New Accounting Pronouncements

In July 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement will require local governmental employers who provide other postemployment benefits (OPEB) as part of the total compensation offered to employees to recognize the expense and related liabilities (assets) in the government-wide financial statements of net assets and activities. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of State and local governmental employers.

Current financial reporting practices for OPEB generally are based on pay-as-you-go financing approaches. They fail to measure or recognize the cost of OPEB during the periods when employees render the services or to provide relevant information about OPEB obligations and the extent to which progress is being made in funding those obligations.

This Statement generally provides for prospective implementation - that is, that employers set the beginning net OPEB obligation at zero as of the beginning of the initial year. The District will be required to implement the provisions of this Statement for the fiscal year ended June 30, 2009. The District is in the process of determining the impact the implementation of this Statement will have on the government-wide statement of net assets and activities.

In June 2005, the GASB issued Statement No. 47, *Accounting for Termination Benefits*. GASB Statement No. 47 addresses accounting for both voluntary and involuntary termination benefits. For termination benefits that affect an employer's obligations for defined benefit OPEB, the provisions of GASB Statement No. 47 should be applied simultaneously with the requirements of GASB Statement No. 45.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 2 – DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2007, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 57,373,326
Fiduciary funds	<u>16,423,470</u>
Total Deposits and Investments	<u>\$ 73,796,796</u>

Deposits and investments as of June 30, 2007, consist of the following:

Investments	\$ 73,708,635
Cash on hand and in banks	85,661
Cash in revolving	<u>2,500</u>
Total Deposits and Investments	<u>\$ 73,796,796</u>

Policies and Practices

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

Investment in County Treasury - The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 41001). The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007

General Authorizations

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

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

Authorized Under Debt Agreements

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

Weighted Average Maturity

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

Investment Type	Fair Value	Maturity Date/ Average maturity In Years
First American Treasury Money Market Mutual Funds	\$ 38,385,538	1*
Riverside County Investment Pool	34,693,558	1.4
FSA Investment Agreement	592,240	9/1/2025
Total	\$ 73,671,336	

* Average maturity in days.

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, First American Treasury Money Market Mutual Funds are rated Aaa by Moody's Investor Service. The Financial Security Assurance (FSA) Investment Agreement is not required to be rated. However, the investment agreement is insured by FSA who is rated Aaa by Moody's Investor Service.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. 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, 2007, the District's bank balance of \$48,248 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 3 – RECEIVABLES

Receivables at June 30, 2007, consisted of intergovernmental grants, entitlements, interest, and other local sources. All receivables are considered collectible in full.

	General Fund	Capital Facilities Fund	County School Facilities Fund	Non-Major Governmental Funds	Total
Federal Government					
Categorical aid	\$ 489,006	\$ -	\$ -	\$ 159,218	\$ 648,224
State Government					
Apportionment	3,913,103	-	-	-	3,913,103
Categorical aid	799,078	-	-	-	799,078
Lottery	552,178	-	-	-	552,178
Other State	680,960	-	-	1,295	682,255
Local Government					
Interest	130,566	352,926	73	20,110	503,675
Other Local Sources	208,580	39,067	-	7,321	254,968
Total	<u>\$ 6,773,471</u>	<u>\$ 391,993</u>	<u>\$ 73</u>	<u>\$ 187,944</u>	<u>\$ 7,353,481</u>

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 13,388,897	\$12,355,866	\$ -	\$ 25,744,763
Construction in process	26,537,550	11,821,468	12,507,965	25,851,053
Total Capital Assets Not Being Depreciated	39,926,447	24,177,334	12,507,965	51,595,816
Capital Assets Being Depreciated				
Site improvements	1,712,409	743,837	-	2,456,246
Buildings and improvements	65,213,161	12,865,363	-	78,078,524
Furniture and equipment	4,522,926	1,583,636	483,283	5,623,279
Total Capital Assets Being Depreciated	71,448,496	15,192,836	483,283	86,158,049
Total Capital Assets	111,374,943	39,370,170	12,991,248	137,753,865
Less Accumulated Depreciation				
Site improvements	104,363	116,945	-	221,308
Buildings and improvements	10,263,018	1,824,124	-	12,087,142
Furniture and equipment	1,347,749	500,492	483,283	1,364,958
Total Accumulated Depreciation	11,715,130	2,441,561	483,283	13,673,408
Governmental Activities Capital Assets, Net	\$ 99,659,813	\$36,928,609	\$ 12,507,965	\$ 124,080,457

Assets consisting of land and building in the amount of \$6,050,421 have been pledged as collateral for the certificates of participation described in Note 8.

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
Instruction	\$ 2,368,319
Home-to-school transportation	73,242
Total Depreciation Expenses Governmental Activities	\$ 2,441,561

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 5 – INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances consist of amounts advanced between funds for various purposes. Interfund receivable and payable balances at June 30, 2007, between major and non-major governmental funds are as follows:

Due To	Due From			Total
	Capital Facilities Fund	Capital Project for Blended Component Units Fund	Non-Major Governmental Funds	
General Fund	\$ 6,401	\$ -	\$ 2,993	\$ 9,394
Capital Facilities Fund	-	3,880,422	-	3,880,422
Non-Major Governmental Funds	-	-	620	620
Total	\$ 6,401	\$ 3,880,422	\$ 3,613	\$ 3,890,436

All 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 system, and (3) payments between funds are made.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

Operating Transfers

Interfund transfers for the year ended June 30, 2007, consisted of the following:

Transfer To	Transfer From					Total
	General Fund	Capital Facilities Fund	County School Facilities Fund	Capital Project for Blended Component Units Fund	Non-Major Governmental Funds	
Capital Facilities Fund	\$ -	\$ -	\$ 3,811,951	\$ 15,720,575	\$ 3,905,755	\$ 23,438,281
Non-Major Governmental Funds	350,000	561,628	-	-	-	911,628
Total	<u>\$ 350,000</u>	<u>\$ 561,628</u>	<u>\$ 3,811,951</u>	<u>\$ 15,720,575</u>	<u>\$ 3,905,755</u>	<u>\$ 24,349,909</u>

The General Fund transferred to the Deferred Maintenance Fund for required annual match.	\$ 350,000
The Capital Facilities Fund transferred to the Debt Service Fund to fund debt service payments on Certificates of Participation.	561,628
The County School Facilities Fund transferred to the Capital Facilities Fund to reimburse cost of portables projects.	3,811,951
The Capital Project for Blended Component Units Fund transferred to the Capital Facilities Fund to reimburse project costs.	15,720,575
The Building Fund transferred to the Capital Facilities Fund to reimburse projects costs.	3,905,755
Total	<u>\$ 24,349,909</u>

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 6 – ACCOUNTS PAYABLE

Accounts payable at June 30, 2007, consisted of the following:

	General Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total
Construction payables	\$ -	\$ 2,121,513	\$ 23,866	\$ 2,145,379
Vendor payables	584,748	46,446	54,640	685,834
State apportionment	454,271	-	-	454,271
Salaries and benefits	235,843	-	11,877	247,720
Total	<u>\$ 1,274,862</u>	<u>\$ 2,167,959</u>	<u>\$ 90,383</u>	<u>\$ 3,533,204</u>

NOTE 7 – DEFERRED REVENUE

Deferred revenue at June 30, 2007, consists of the following:

	General Fund
Federal financial assistance	\$ 63,939
State categorical aid	1,420
Total	<u>\$ 65,359</u>

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 8 – LONG-TERM OBLIGATIONS

Summary

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

	Balance Beginning of Year as Restated	Issuances	Accretion Addition	Deductions	Balance End of Year	Due in One Year
General Obligation Bonds Payable						
Series A	\$ 9,238,539	\$ -	\$ 31,890	\$ 175,000	\$ 9,095,429	\$ -
Series B	5,078,690	-	15,004	-	5,093,694	-
Premium on issuance	179,725	-	-	7,814	171,911	7,814
Total General Obligation Bonds	14,496,954	-	46,894	182,814	14,361,034	7,814
Certificates of Participation						
2004 Refunding Series	7,800,000	-	-	295,000	7,505,000	295,000
Accumulated vacation	179,278	42,372	-	-	221,650	-
Total Long-term Obligations	\$22,476,232	\$ 42,372	\$ 46,894	\$ 477,814	\$22,087,684	\$ 302,814

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

General Obligation Bond

In June 2003, the District issued current and appreciation bonds, 2002 Election General Obligation Bond, Series A, in the amount of \$9,429,203 (accreting to \$9,930,000) in order to raise money for modernization, reconstruction, and new construction. The Bonds have a maturity date of August 1, 2027, with interest rates varying from 2.37 to 7.40 percent.

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. Interest rates on the bonds range from 3.00 percent to 4.27 percent. The bonds mature on August 1 of each year beginning 2008 through 2029 (Fiscal year 2030).

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

At June 30, 2007 the principal balance outstanding on the Series A bonds is \$9,095,429 and on the Series B bonds it is \$5,093,694 with an unamortized premium of \$171,911.

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds/Premium		Redeemed or amortized	Bonds/Premium	
				Outstanding Beginning of Year	Accreted Interest Addition		Outstanding End of Year	Due in One Year
2002-2003	2027-2028	2.37-7.40%	\$ 9,429,203	\$ 9,238,539	\$ 31,890	\$ 175,000	\$ 9,095,429	\$ -
2004-2005	2008-2029	3.00-4.27%	5,069,720	5,078,690	15,004	-	5,093,694	-
Premiums on Issuance			-	179,725	-	7,814	171,911	7,814
			<u>\$ 14,498,923</u>	<u>\$ 14,496,954</u>	<u>\$ 46,894</u>	<u>\$ 182,814</u>	<u>\$ 14,361,034</u>	<u>\$ 7,814</u>

Debt Service Requirements to Maturity

Series A Bonds

Fiscal Year	Principal Including Accreted Interest to Date	Accreted Interest	Current Interest to Maturity	Total 2002 Series A
2008	\$ -	\$ -	\$ 385,999	\$ 385,999
2009	-	-	385,999	385,999
2010	25,000	-	410,674	435,674
2011	25,000	-	410,005	435,005
2012	75,000	-	458,536	533,536
2013-2017	705,429	394,571	2,977,275	4,077,275
2018-2022	2,355,000	-	4,017,541	6,372,541
2023-2027	4,620,000	-	5,550,363	10,170,363
2028	1,290,000	-	1,415,625	2,705,625
Total	<u>\$ 9,095,429</u>	<u>\$ 394,571</u>	<u>\$ 16,012,017</u>	<u>\$ 25,502,017</u>

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

Series B Bonds

Fiscal Year	Principal Including Accreted Interest to Date	Accreted Interest	Current Interest to Maturity	Total 2002 Series B
2008	\$ -	\$ -	\$ 217,630	\$ 217,630
2009	25,000	-	242,255	267,255
2010	60,000	-	275,950	335,950
2011	100,000	-	313,270	413,270
2012	100,000	-	309,770	409,770
2013-2017	625,000	-	1,605,256	2,230,256
2018-2022	680,000	-	1,541,446	2,221,446
2023-2027	1,210,000	-	1,863,513	3,073,513
2028-2030	2,293,694	746,306	3,193,188	6,233,188
Total	<u>\$ 5,093,694</u>	<u>\$ 746,306</u>	<u>\$ 9,562,278</u>	<u>\$ 15,402,278</u>

Certificates of Participation

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

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

At June 30, 2007 the principal balance outstanding was \$7,505,000.

Year Ending June 30,	Principal	Interest	Total
2008	\$ 295,000	\$ 287,653	\$ 582,653
2009	300,000	280,215	580,215
2010	310,000	271,815	581,815
2011	320,000	262,365	582,365
2012	330,000	251,790	581,790
2013-2017	1,835,000	1,070,069	2,905,069
2018-2022	2,220,000	672,841	2,892,841
2023-2026	1,895,000	160,678	2,055,678
Total	<u>\$ 7,505,000</u>	<u>\$ 3,257,426</u>	<u>\$ 10,762,426</u>

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2007, amounted to \$221,650.

NOTE 9 - NO COMMITMENT 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 CFD's) are not obligations of the Menifee Union Elementary School District. The bonds, the interest thereon, and any premiums on the redemption of any of the bonds are not an indebtedness of the District, the State of California, or any of its political subdivisions. Neither the faith and credit nor the taxing power of the District is pledged to the payment of the bonds. The bonds are payable from proceeds of Net Special Taxes levied on property within the CFD's according to the rate and method of apportionment of special tax approved by the Board and the eligible landowner voters in the CFD's. The bonds are secured only by a first pledge of all revenues derived from the net special taxes and the moneys deposited in certain funds held by the fiscal agent under the fiscal agent agreement. Therefore, the bonds are not included in the financial statements.

	Balance Beginning of Year	Issuances	Deductions	Balance End of Year	Due in One Year
Public Finance Authority	\$ 37,325,000	\$ -	\$ 720,000	\$ 36,605,000	\$ 830,000
CFD 2002-2	8,250,000	-	130,000	8,120,000	135,000
CFD 2002-4	2,405,000	-	45,000	2,360,000	45,000
CFD 2002-5	6,195,000	-	110,000	6,085,000	115,000
CFD 2003-1	2,315,000	-	40,000	2,275,000	40,000
CFD 2003-2	-	10,900,000	-	10,900,000	-
CFD 2003-4	2,580,000	-	-	2,580,000	45,000
CFD 2004-2	4,480,000	-	-	4,480,000	-
CFD 2004-3	4,160,000	-	70,000	4,090,000	75,000
CFD 2004-4	2,460,000	-	-	2,460,000	40,000
CFD 2004-5	4,625,000	-	-	4,625,000	70,000
CFD 2005-2	-	4,740,000	-	4,740,000	-
CFD 2006-3	-	2,040,000	-	2,040,000	-
Discount on Bonds	(404,942)	-	(13,498)	(391,444)	(13,498)
Total Special Tax Bonds	\$ 74,390,058	\$ 17,680,000	\$ 1,101,502	\$ 90,968,556	\$ 1,381,502

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

Public Finance Authority

In January 2006, the Menifee Union Elementary School District Public Finance Authority (PFA) authorized and issued Special Tax Revenue Bonds, 2007 Series A in the amount of \$37,325,000. The following Community Facilities Districts were refunded:

- CFD No. 99-1, Zone 1
- CFD No. 99-1, Zone 2
- CFD No. 99-1, Improvement Area A
- CFD No. 2002-1
- CFD No. 2002-3
- CFD No. 2003-3

The transaction resulted in a current refunding of the following prior issuances, the issuance of refunding bonds for each and a new issuance for CFD 94-1 totaling \$37,325,000. The obligations are held by the PFA as an investment from which the PFA issued Revenue Bonds in the same amount. The revenue streams of the local CFD obligation are the funding source for the debt service of the PFA revenue bonds.

The refunding provided funds to be used for certain school facilities of each respective Community Facilities District, fund a reserve, pay initial administrative expenses, and costs of issuance. Interest rates on the bonds range from 3.25 percent to 4.35 percent.

At June 30, 2007, the outstanding principal balance was \$36,605,000. See the discussion under the caption Community Facilities District, on page 41. The bonds mature annually through 2035 as follows:

Year Ending June 30,	Principal	Interest	Total
2008	\$ 830,000	\$ 1,502,480	\$ 2,332,480
2009	865,000	1,473,855	2,338,855
2010	885,000	1,443,230	2,328,230
2011	920,000	1,411,643	2,331,643
2012	950,000	1,378,918	2,328,918
2013-2017	5,295,000	6,329,225	11,624,225
2018-2022	6,450,000	5,156,450	11,606,450
2023-2027	7,895,000	3,663,019	11,558,019
2028-2032	9,225,000	1,777,426	11,002,426
2033-2035	3,290,000	166,500	3,456,500
Total	<u>\$ 36,605,000</u>	<u>\$ 24,302,746</u>	<u>\$ 60,907,746</u>

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

Community Facilities District No. 2002-2

In August 2004, the Community Facilities District No. 2002-2 of the Menifee Union Elementary School District issued Special Tax Bonds in the amount of \$8,250,000. Interest rates range from 2.75 percent to 5.85 percent. At June 30, 2007, the principal outstanding balance was \$8,120,000. See the discussion under the caption Community Facilities District, on page 41. The bonds mature through 2035 as follows:

Year Ending June 30,	Principal	Interest	Total
2008	\$ 135,000	\$ 462,828	\$ 597,828
2009	140,000	458,045	598,045
2010	145,000	452,590	597,590
2011	150,000	446,465	596,465
2012	160,000	439,560	599,560
2013-2017	910,000	2,071,591	2,981,591
2018-2022	1,185,000	1,790,161	2,975,161
2023-2027	1,580,000	1,383,545	2,963,545
2028-2032	2,110,000	826,550	2,936,550
2033-2035	1,605,000	150,518	1,755,518
Total	<u>\$ 8,120,000</u>	<u>\$ 8,481,853</u>	<u>\$ 16,601,853</u>

Community Facilities District No. 2002-4

In December 2004, the Community Facilities District No. 2002-4 of the Menifee Union Elementary School District issued Special Tax Bonds in the amount of \$2,405,000. Interest rates range from 2.40 percent to 5.52 percent. At June 30, 2007, the principal outstanding balance was \$2,360,000. See the discussion under the caption Community Facilities District, on page 41. The bonds mature through 2035 as follows:

Year Ending June 30,	Principal	Interest	Total
2008	\$ 45,000	\$ 117,288	\$ 162,288
2009	45,000	116,005	161,005
2010	45,000	114,576	159,576
2011	50,000	112,923	162,923
2012	50,000	111,060	161,060
2013-2017	285,000	521,178	806,178
2018-2022	360,000	446,803	806,803
2023-2027	450,000	343,718	793,718
2028-2032	590,000	205,052	795,052
2033-2035	440,000	37,125	477,125
Total	<u>\$ 2,360,000</u>	<u>\$ 2,125,728</u>	<u>\$ 4,485,728</u>

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

Community Facilities District No. 2002-5

In December 2004, the Community Facilities District No. 2002-5 of the Menifee Union Elementary School District issued Special Tax Bonds in the amount of \$6,195,000. Interest rates range from 2.40 percent to 5.52 percent. At June 30, 2007, the principal outstanding balance was \$6,085,000. See the discussion under the caption Community Facilities District, on page 41. The bonds mature through 2035 as follows:

Year Ending June 30,	Principal	Interest	Total
2008	\$ 115,000	\$ 302,369	\$ 417,369
2009	120,000	299,016	419,016
2010	120,000	295,206	415,206
2011	125,000	290,946	415,946
2012	130,000	286,194	416,194
2013-2017	730,000	1,344,541	2,074,541
2018-2022	915,000	1,153,695	2,068,695
2023-2027	1,175,000	887,467	2,062,467
2028-2032	1,530,000	526,881	2,056,881
2033-2035	1,125,000	95,013	1,220,013
Total	<u>\$ 6,085,000</u>	<u>\$ 5,481,328</u>	<u>\$ 11,566,328</u>

Community Facilities District No. 2003-1

In January 2006, the Community Facilities District No. 2003-1 of the Menifee Union Elementary School District issued Special Tax Bonds in the amount of \$2,315,000. Interest rates range from 2.50 percent to 5.45 percent. At June 30, 2007, the principal outstanding balance was \$2,275,000. See the discussion under the caption Community Facilities District, on page 41. The bonds mature through 2036 as follows:

Year Ending June 30,	Principal	Interest	Total
2008	\$ 40,000	\$ 112,845	\$ 152,845
2009	40,000	111,695	151,695
2010	45,000	110,341	155,341
2011	45,000	108,766	153,766
2012	45,000	107,079	152,079
2013-2017	255,000	505,198	760,198
2018-2022	325,000	438,216	763,216
2023-2027	410,000	344,733	754,733
2028-2032	530,000	220,475	750,475
2033-2036	540,000	60,210	600,210
Total	<u>\$ 2,275,000</u>	<u>\$ 2,119,558</u>	<u>\$ 4,394,558</u>

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

Community Facilities District No. 2003-2

In December 2007, Community Facilities District No. 2003-2 issued \$10,900,000 in Special Tax Bonds. The bonds were issued to finance the acquisition and construction of certain school facilities and improvements to be owned and operated by Menifee Union Elementary School District of benefit to the property in the Community Facilities District, fund a reserve, pay administration expenses, and cost of issuance. Interest rates on the bonds range from 3.9 percent to 5.0 percent. At June 30, 2007, the outstanding principal balance was \$10,900,000. See the discussion under the caption Community Facilities District, on page 41. The bonds mature annually through 2037 as follows:

Year Ending June 30,	Principal	Interest	Total
2008	\$ -	\$ 529,473	\$ 529,473
2009	-	529,473	529,473
2010	200,000	525,573	725,573
2011	205,000	517,521	722,521
2012	215,000	508,909	723,909
2013-2017	1,215,000	2,393,923	3,608,923
2018-2022	1,525,000	2,076,912	3,601,912
2023-2027	1,930,000	1,653,250	3,583,250
2028-2032	2,460,000	1,106,750	3,566,750
2033-2037	3,150,000	408,750	3,558,750
Total	<u>\$ 10,900,000</u>	<u>\$ 10,250,534</u>	<u>\$ 21,150,534</u>

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

Community Facilities District No. 2003-4

In July 2006, Community Facilities District No. 2003-4 issued \$2,580,000 in Special Tax Bonds. The bonds were issued to finance the acquisition and construction of certain school facilities and improvements to be owned and operated by Menifee Union Elementary School District of benefit to the property in the Community Facilities District, fund a reserve, pay administration expenses, and cost of issuance. Interest rates on the bonds range from 3.5 percent to 5.1 percent. At June 30, 2007, the outstanding principal balance was \$2,580,000. See the discussion under the caption Community Facilities District, on page 41. The bonds mature annually through 2036 as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 45,000	\$ 124,654	\$ 169,654
2009	45,000	123,225	168,225
2010	50,000	121,570	171,570
2011	50,000	119,695	169,695
2012	50,000	117,733	167,733
2013-2017	295,000	553,201	848,201
2018-2022	365,000	477,608	842,608
2023-2027	475,000	374,421	849,421
2028-2032	605,000	237,046	842,046
2033-2036	600,000	64,220	664,220
Total	<u>\$ 2,580,000</u>	<u>\$ 2,313,373</u>	<u>\$ 4,893,373</u>

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

Community Facilities District No. 2004-2

In August 2005, Community Facilities District No. 2004-2 issued \$4,480,000 in Special Tax Bonds. The Bonds were issued to finance the acquisition and construction of certain school facilities and improvements to be owned and operated by Menifee Union Elementary School District of benefit to the property in the Community Facilities District, finance the water and sewer facilities needed by Eastern Municipal Water District to provide services to the property of the Community Facilities District, fund a reserve, pay administration expenses and cost of issuance. Interest rates on the bonds range from 3.5 percent to 5.25 percent. At June 30, 2007, the outstanding principal balance was \$4,480,000. See the discussion under the caption Community Facilities District, on page 41. The bonds mature annually through 2036 as follows:

Year Ending June 30,	Principal	Interest	Total
2008	\$ -	\$ 222,765	\$ 222,765
2009	80,000	221,365	301,365
2010	85,000	218,329	303,329
2011	85,000	214,993	299,993
2012	90,000	211,425	301,425
2013-2017	520,000	992,018	1,512,018
2018-2022	655,000	854,195	1,509,195
2023-2027	830,000	669,791	1,499,791
2028-2032	1,065,000	426,833	1,491,833
2033-2036	1,070,000	116,287	1,186,287
Total	<u>\$ 4,480,000</u>	<u>\$ 4,148,001</u>	<u>\$ 8,628,001</u>

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

Community Facilities District No. 2004-3

In January 2006, the Community Facilities District No. 2004-3 of the Menifee Union Elementary School District issued Special Tax Bonds in the amount of \$4,160,000. Interest rates range from 2.40 percent to 5.50 percent. At June 30, 2007, the principal outstanding balance was \$4,090,000. See the discussion under the caption Community Facilities District, on page 41. The bonds mature through 2036 as follows:

Year Ending June 30,	Principal	Interest	Total
2008	\$ 75,000	\$ 206,325	\$ 281,325
2009	75,000	204,206	279,206
2010	75,000	201,844	276,844
2011	75,000	199,200	274,200
2012	85,000	196,155	281,155
2013-2017	455,000	925,460	1,380,460
2018-2022	575,000	804,287	1,379,287
2023-2027	735,000	635,871	1,370,871
2028-2032	965,000	407,138	1,372,138
2033-2036	975,000	100,963	1,075,963
Total	<u>\$ 4,090,000</u>	<u>\$ 3,881,449</u>	<u>\$ 7,971,449</u>

Community Facilities District No. 2004-4

In April 2006, the Community Facilities District No. 2004-4 of the Menifee Union Elementary School District issued Special Tax Bonds in the amount of \$2,460,000. Interest rates range from 3.00 percent to 5.45 percent. At June 30, 2007, the principal outstanding balance was \$2,460,000. See the discussion under the caption Community Facilities District, on page 41. The bonds mature through 2036 as follows:

Year Ending June 30,	Principal	Interest	Total
2008	\$ 40,000	\$ 124,368	\$ 164,368
2009	45,000	123,014	168,014
2010	45,000	121,450	166,450
2011	45,000	119,785	164,785
2012	50,000	117,930	167,930
2013-2017	270,000	555,926	825,926
2018-2022	350,000	481,099	831,099
2023-2027	450,000	378,450	828,450
2028-2032	580,000	241,013	821,013
2033-2036	585,000	66,081	651,081
Total	<u>\$ 2,460,000</u>	<u>\$ 2,329,116</u>	<u>\$ 4,789,116</u>

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

Community Facilities District No. 2004-5

In February 2006, Community Facilities District No. 2004-5 issued \$4,625,000 in Special Tax Bonds. The bonds were issued to finance the acquisition and construction of certain school facilities and improvements to be owned and operated by Menifee Union Elementary School District of benefit to the property in the Community Facilities District, finance the water and sewer back up fees and a sewer treatment plant needed by Eastern Municipal Water District to provide services to the property of the Community Facilities District, fund a reserve, pay administration expenses and cost of issuance. Interest rates on the bonds range from 3.6 percent to 5.25 percent. At June 30, 2007, the outstanding principal balance was \$4,625,000. See the discussion under the caption Community Facilities District, on page 41. The bonds mature annually through 2037 as follows:

Year Ending June 30,	Principal	Interest	Total
2008	\$ 70,000	\$ 232,409	\$ 302,409
2009	75,000	229,705	304,705
2010	80,000	226,661	306,661
2011	80,000	223,381	303,381
2012	85,000	219,853	304,853
2013-2017	485,000	1,035,564	1,520,564
2018-2022	615,000	902,056	1,517,056
2023-2027	795,000	721,464	1,516,464
2028-2032	1,025,000	484,968	1,509,968
2033-2037	1,315,000	179,681	1,494,681
Total	<u>\$ 4,625,000</u>	<u>\$ 4,455,742</u>	<u>\$ 9,080,742</u>

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

Community Facilities District No. 2005-2

In July 2006, Community Facilities District No. 2005-2 issued \$4,740,000 in Special Tax Bonds. The bonds were issued to finance the acquisition and construction of certain school facilities and improvements to be owned and operated by Menifee Union Elementary School District of benefit to the property in the Community Facilities District, finance the water, sewer back up fees, water supply development fees, automated meter reading fees, and sewer treatment capacity changes needed by Eastern Municipal Water District to provide services to the property of the Community Facilities District, fund a reserve, pay administration expenses and cost of issuance. Interest rates on the bonds range from 4.15 percent to 5.375 percent. At June 30, 2007, the outstanding principal balance was \$4,740,000. See the discussion under the caption Community Facilities District, on page 41. The bonds mature annually through 2037 as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ -	\$ 246,470	\$ 246,470
2009	75,000	244,914	319,914
2010	80,000	241,638	321,638
2011	85,000	238,048	323,048
2012	90,000	234,153	324,153
2013-2017	500,000	1,103,913	1,603,913
2018-2022	635,000	962,570	1,597,570
2023-2027	825,000	771,990	1,596,990
2028-2032	1,065,000	521,509	1,586,509
2033-2037	1,385,000	193,366	1,578,366
Total	<u>\$ 4,740,000</u>	<u>\$ 4,758,569</u>	<u>\$ 9,498,569</u>

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

Community Facilities District No. 2006-3

In March 2007, Community Facilities District No. 2006-3 issued \$2,040,000 in Special Tax Bonds. The bonds were issued to finance the acquisition and construction of certain school facilities and improvements to be owned and operated by Menifee Union Elementary School District of benefit to the property in the Community Facilities District, finance the water and sewer back up fees and a sewer treatment plant needed by Eastern Municipal Water District to provide services to the property of the Community Facilities District, fund a reserve, pay administration expenses and cost of issuance. Interest rates on the bonds range from 3.85 percent to 5.00 percent. At June 30, 2007, the outstanding principal balance was \$2,040,000. See the discussion under the caption Community Facilities District, on page 41. The bonds mature annually through 2038 as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ -	\$ 88,106	\$ 88,106
2009	-	97,295	97,295
2010	35,000	96,621	131,621
2011	35,000	95,256	130,256
2012	40,000	93,765	133,765
2013-2017	215,000	443,007	658,007
2018-2022	270,000	389,404	659,404
2023-2027	340,000	317,915	657,915
2028-2032	430,000	224,420	654,420
2033-2037	550,000	102,500	652,500
2038	125,000	3,125	128,125
Total	<u>\$ 2,040,000</u>	<u>\$ 1,951,414</u>	<u>\$ 3,991,414</u>

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 10 - FUND BALANCES

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

	General Fund	Capital Facilities Fund	County School Facilities Fund	Capital Project for Blended Component Units Fund	Non-Major Governmental Funds	Total Governmental Funds
Reserved						
Revolving cash	\$ 2,500	\$ -	\$ -	\$ -	\$ -	\$ 2,500
Store inventories	-	-	-	-	17,381	17,381
Restricted programs	2,186,088	-	-	-	-	2,186,088
Total Reserved	2,188,588	-	-	-	17,381	2,205,969
Unreserved						
Designated						
Economic uncertainties	2,195,402	-	-	-	-	2,195,402
Other designation	3,102,917	29,371,112	2,497	-	1,331,719	33,808,245
Total Designated	5,298,319	29,371,112	2,497	-	1,331,719	36,003,647
Undesignated	3,478,476	-	-	18,167,113	1,290,420	22,936,009
Total Unreserved	8,776,795	29,371,112	2,497	18,167,113	2,622,139	58,939,656
Total	\$10,965,383	\$29,371,112	\$ 2,497	\$ 18,167,113	\$ 2,639,520	\$ 61,145,625

NOTE 11 - EXPENDITURES (BUDGET VERSUS ACTUAL)

At June 30, 2007, the following District fund exceeded the budgeted amount in total as follows:

	Expenditures and Other Uses		
	Budget	Actual	Excess
Child Development Fund	\$ 342,299	\$ 344,360	\$ 2,061

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 12 - POSTEMPLOYMENT BENEFITS

The District provides postemployment health care benefits, in accordance with certain past District employment contracts. Currently, three employees meet those eligibility requirements. The District contributes 100 percent of the amount of premiums incurred by retirees and their dependents and the retiree contributes the remainder. Expenditures for postemployment benefits are recognized on a pay-as-you-go basis, as premiums are paid. During the year, expenditures of \$30,686 were recognized for retirees' health care benefits.

NOTE 13 - RISK MANAGEMENT

The District's risk management activities are recorded in the General Fund. Employee life, health, and disability programs are administered by the General Fund through the purchase of commercial insurance. The District participates in the Western Riverside County Self-Insurance Program for Employees joint powers authority (JPA) for the workers' compensation programs and purchases excess liability coverage through the JPA. Refer to Note 16 for additional information regarding the JPAs. The Property and Liability Program, for which the District retains risk of loss, is covered through the District's participation in the Riverside Schools Insurance Authority.

For insured programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

NOTE 14 - EMPLOYEE RETIREMENT SYSTEM

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

STRS

Plan Description

The District contributes to the California State Teachers' Retirement System (STRS); a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement and disability benefits and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from STRS, 7667 Folsom Blvd., Sacramento, CA 95826.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

Funding Policy

Active plan members are required to contribute 8.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by STRS Teachers' Retirement Board. The required employer contribution rate for fiscal 2006-2007 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to STRS for the fiscal years ending June 30, 2007, 2006, and 2005, were \$2,458,321, \$2,079,530, and \$1,746,451, respectively, and equal 100 percent of the required contributions for each year.

PERS

Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS); a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issue a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

Funding Policy

Active plan members are required to contribute 7.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal 2006-2007 was 9.124 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2007, 2006, and 2005, were \$656,506, \$525,141, and \$483,130, respectively, and equal 100 percent of the required contributions for each year.

On Behalf Payments

The State of California makes contributions to STRS and PERS on behalf of the District. These payments consist of State General Fund contributions to STRS in the amount of \$1,357,740 (4.517 percent of salaries subject to STRS). This amount was reported in both State revenues and Instructional Expenditures within the General Fund. No contributions were made for PERS for the year ended June 30, 2007. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures however, guidance received from the California Department of Education advises local educational agencies not to record these amounts in the Annual Financial and Budget Report. These amounts have not been included in the budget amounts reported in the General Fund Budgetary Schedule. These amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007

NOTE 15 – COMMITMENTS AND CONTINGENCIES

Litigation

The District is involved in various litigations arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the district at June 30, 2007.

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, 2007.

Construction Commitments

As of June 30, 2007, the District had the following commitments with respect to the unfinished capital projects:

CAPITAL PROJECTS	Remaining Construction Commitment	Expected Date of Completion
Elementary School # 8	\$ 16,091,492	July 2008
Elementary School #11	15,426,300	July 2008
Menifee Elementary Schools Restroom Project	61,157	August 2007
Preschool	130,514	August 2007
Evans Ranch Elementary Portables	685,752	August 2007
Menifee Valley Middle Schools Gym	202,500	January 2009
Menifee Valley Middle Schools Solar Energy Program	230,000	January 2008
Maintenance, Operations and Transportation Yard	95,056	December 2008
	<u>\$ 32,922,771</u>	

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

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 Western Riverside County Self Insurance Program for Employees (WRCSIPE) joint powers authority (JPA). The District pays an annual premium to the applicable entity for its health, workers' compensation, and property liability coverage. The relationships between the District and the JPA's are such that they are not component units of the District for financial reporting purposes.

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

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

During the year ended June 30, 2007, the District made payments of \$249,351 to RSIA and \$5,271,264 to SISC III for insurance.

NOTE 17 – RESTATEMENTS

Based upon the District's review of the legal structure of the Meniffee Union Elementary School District Public Financing Authority (the Authority) and each of the Community Facilities Districts (CFDs) the District has determined that the presentation of the long term debt and the debt service reserve funds for each of these entities required a change in reporting presentation. The District also considered the technical guidance found in Governmental Accounting Standards Board (GASB) Statement No. 6 as part of the review process. Based upon the legal and technical guidance review the District verified that the structure of the special tax bond issuances indicate that the District is not obligated for the special tax bonds and therefore a change in reporting presentation is required.

As a result of this determination the District has changed its reporting presentation and posted the applicable restatement adjustments.

Changes in Report Presentation

In accordance with the technical provisions of GASB Statement No. 6 the District has removed the Authority and CFDs liability from the Statement of Net Assets and has removed the corresponding amounts from the long-term debt. See Note 8.

The long-term obligation associated with the borrowings of the Authority and the CFDs is now been presented as "No Commitment Debt" in Note 9. As previously discussed; because the District has no liability for this debt, the debt is not to be included within the Statement of Net Assets.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

In addition the District has changed the classification of the bond reserve funds which were previously held in governmental fund type debt service funds. Again, based upon the technical requirements of GASB Statement No. 6 these funds have been reclassified as Agency funds to indicate that the District is only holding these funds on behalf of the special tax bond holders. These funds cannot be used by the District as the District is acting only in the capacity as a fiduciary for these funds.

Restatement Adjustments

All of the debt associated with the Authority and the CFDs has been removed from the District's Long Term Debt, Note 8. The debt is now presented as "No Commitment Debt" within Note 9. The results are:

Beginning long-term obligation as of June 30, 2006	\$ 96,866,290
Restatement to move the Authority and CFD Debt to No Commitment Debt	<u>(74,390,058)</u>
Restated long-term obligation as of June 30, 2007	<u>\$ 22,476,232</u>

As discussed above the District also reclassified the bond reserve funds from governmental debt service funds to fiduciary agency funds.

Debt Service for Blended Component Units Fund balance as of June 30, 2006	\$ 8,811,948
Restatement to reclassify to Agency Funds	<u>(8,811,948)</u>
Restated fund balance as of June 30, 2007	<u>\$ -</u>

Note: As the restatement for the Debt Service for Blended Component Units Fund resulted in a zero fund balance as of June 30, 2006, this closed fund has not been presented in the fiscal year 2006-2007 audit report. These funds are now presented as a fiduciary fund type agency fund.

NOTE 18 – SUBSEQUENT EVENTS

As discussed within Note 1 the District's audit report presents the financial activity of several Community Facilities Districts (CFDs). Subsequent to year end the District, as the fiduciary for these CFDs, reported to the Governing Board that several CFDs are experiencing increasing delinquency rates for the special tax collections. The special taxes are the funding mechanism for the CFDs debt service payments.

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REQUIRED SUPPLEMENTARY INFORMATION

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MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2007**

	Budgeted Amounts		Actual (GAAP Basis)	Variances -
	(GAAP Basis)			Positive
	Original	Final		(Negative) Final to Actual
REVENUES				
Revenue limit sources	\$ 40,922,792	\$ 43,418,103	\$ 43,598,294	\$ 180,191
Federal sources	1,562,489	2,330,740	2,342,821	12,081
Other State sources	6,855,303	10,271,621	11,536,055	1,264,434
Other local sources	3,866,114	4,720,805	5,011,272	290,467
Total Revenues¹	53,206,698	60,741,269	62,488,442	1,747,173
EXPENDITURES				
Current				
Instruction	35,544,666	39,450,121	38,466,724	983,397
Instruction-related activities:				
Supervision of instruction	1,289,632	1,251,779	1,204,104	47,675
Instructional library, media, and technology	578,904	600,985	550,060	50,925
School site administration	3,923,870	4,055,288	3,983,526	71,762
Pupil services:				
Home-to-school transportation	1,704,531	2,212,511	2,111,690	100,821
All other pupil services	1,587,877	2,107,752	1,804,139	303,613
General administration:				
Data processing	840,741	684,912	538,731	146,181
All other general administration	2,871,739	3,004,737	2,935,205	69,532
Plant services	5,870,989	6,144,477	5,717,644	426,833
Other outgo	61,278	181,750	209,317	(27,567)
Total Expenditures¹	54,274,227	59,694,312	57,521,140	2,173,172
Excess (Deficiency) of Revenues Over Expenditures	(1,067,529)	1,046,957	4,967,302	3,920,345
Other Financing Sources (Uses)				
Transfers out	(205,000)	(350,000)	(350,000)	-
NET CHANGE IN FUND BALANCES	(1,272,529)	696,957	4,617,302	3,920,345
Fund Balance - Beginning	6,348,081	6,348,081	6,348,081	-
Fund Balance - Ending	\$ 5,075,552	\$ 7,045,038	\$ 10,965,383	\$ 3,920,345

¹ On behalf payment of \$1,357,740 is included in the actual revenues and expenditures, but has not been included in the budgeted amounts.

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SUPPLEMENTARY INFORMATION

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MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	\$ 426,625
Title II, Part A, Teacher Quality	84.367	14341	68,443
Title II, Part D, Enhancing Education Through Technology	84.318	14335	864
Title III, Immigrant Education Program	84.365	14346	8,463
Title III, Limited English Proficiency (LEP) Student Program	84.365	10084	86,601
Title IV, Part A, Drug-Free Schools	84.186	14347	19,116
Title V, Part A, Innovative Education Strategies	84.298	14354	10,237
Title X, McKinney-Vento Homeless Special Education Cluster	84.196	14332	500
Basic Local Assistance Entitlement	84.027	13379	877,205
Preschool Grants	84.173	13430	38,524
Preschool Local Entitlements	84.027A	13682	73,254
Preschool Staff Development	84.173A	13431	731
Total U.S. Department of Education			<u>1,610,563</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN RESOURCES			
Medi-Cal Billing Option	93.778	10013	18,258
Medi-Cal Administrative Activities	93.778	10013	70,516
Total U.S. Department of Health and Human Resources			<u>88,774</u>
U.S. DEPARTMENT OF AGRICULTURE			
Child Nutrition Cluster			
National School Lunch Program	10.555	13391	835,732
Especially Needy Breakfast	10.553	13526	52,114
Basic School Breakfast	10.553	13390	14,822
Food Distribution	10.550	[1]	52,469
Total U.S. Department of Agriculture			<u>955,137</u>
U.S. ENVIRONMENTAL PROTECTION AGENCY			
Clean School Bus USA	66.036	10048	400,000
Total Expenditures of Federal Awards			<u>\$ 3,054,474</u>

[1] Pass-Through Entity Identifying Number not available

See accompanying note to supplementary information.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE

JUNE 30, 2007

ORGANIZATION

The Menifee Union Elementary School District (the District) was established on December 7, 1951, and consists of an area comprising approximately 56 square miles. The District operates seven elementary schools and two middle schools. During the year ended June 30, 2007, a project was developed on the boundary between the District and Lake Elsinore Unified School District. The District board approved the transfer of six units (homes) to Lake Elsinore Unified School District and received in exchange 101 units. The exchange did not result in a change to the number of square miles in the District.

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Fred Twyman	President	2008
Victor Giardinelli	Vice President	2008
Phoebe Irely	Member	2008
Robert O'Donnell	Member	2010
Rita Peters	Member	2010

ADMINISTRATION

Linda C. Callaway, Ed.D.	Superintendent
Daniel Wood	Assistant Superintendent, Business
Gil Compton	Assistant Superintendent, Personnel Services
Karen Valdes	Assistant Superintendent, Curriculum and Instruction
Jeanne Bargman	Director of Pupil Personnel Services
Pam Gillette	Director of Fiscal Services

See accompanying note to supplementary information.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>Second Period Report</u>	<u>Annual Report</u>
ELEMENTARY		
Kindergarten	884	893
First through third	2,615	2,632
Fourth through sixth	2,664	2,675
Seventh and eighth	1,786	1,792
Opportunity schools	12	12
Home and hospital	1	2
Special education	173	177
Total Elementary	<u>8,135</u>	<u>8,183</u>
 SUMMER SCHOOL HOURS		
Elementary		<u>87,098</u>

See accompanying note to supplementary information.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2007**

<u>Grade Level</u>	<u>1982-83 Actual Minutes</u>	<u>1986-87 Minutes Requirement</u>	<u>2006-07 Actual Minutes</u>	<u>Number of Days Multitrack Calendar</u>	<u>Status</u>
Kindergarten	31,500	36,000	38,055	177	Complied
Grades 1 - 3	50,750	50,400			
Grade 1			51,433	177	Complied
Grade 2			51,433	177	Complied
Grade 3			51,433	177	Complied
Grades 4 - 6	50,750	54,000			
Grade 4			54,801	177	Complied
Grade 5			54,801	177	Complied
Grade 6			54,801	177	Complied
Grades 7 - 8	50,750	54,000			
Grade 7			56,334	177	Complied
Grade 8			56,334	177	Complied

See accompanying note to supplementary information.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

There were no adjustments to the Unaudited Actual Financial Report which required reconciliation to the audited financial statements at June 30, 2007.

See accompanying note to supplementary information.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2007

	(Budget) 2008 ¹	2007	2006	2005
GENERAL FUND				
Revenues	\$ 63,397,073	\$ 62,488,442	\$ 48,778,600	\$ 40,468,664
Other sources	-	-	-	60,000
Total Revenues and Other Sources	63,397,073	62,488,442	48,778,600	40,528,664
Expenditures	63,782,667	57,521,140	48,067,912	40,658,993
Other uses and transfers out	557,055	350,000	105,000	331,728
Total Expenditures and Other Uses	64,339,722	57,871,140	48,172,912	40,990,721
INCREASE/(DECREASE) IN FUND BALANCE	\$ (942,649)	\$ 4,617,302	\$ 605,688	\$ (462,057)
ENDING FUND BALANCE	\$ 10,022,734	\$ 10,965,383	\$ 6,348,081	\$ 5,742,393
AVAILABLE RESERVES²	\$ 5,460,291	\$ 5,673,878	\$ 3,169,240	\$ 2,686,973
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO³	8.49%	10.04%	6.74%	7.73%
LONG-TERM OBLIGATION	N/A	\$ 22,087,684	\$ 22,476,232	\$ 22,917,185
K-12 AVERAGE DAILY ATTENDANCE AT P-2	8,764	8,135	7,102	5,675

The General Fund balance has increased by \$5,223,290 over the past two years. The fiscal year 2007-2008 budget projects a decrease of \$942,649 (9 percent). For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in two of the past three years but anticipates incurring an operating deficit during the 2007-2008 fiscal year. Total long-term obligations have decreased by \$47,569,501 in the past two years.

Average daily attendance has increased by 2,460 over the past two years. Additional growth of 629 ADA is anticipated during fiscal year 2007-2008.

¹ Budget 2008 is included for analytical purposes only and has not been subjected to audit.

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

³ On behalf payments have been excluded from the calculation of available reserves for the fiscal years ending June 30, 2007, 2006 and 2005, respectively.

See accompanying note to supplementary information.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2007**

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

See accompanying note to supplementary information.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

EXCESS SICK LEAVE

JUNE 30, 2007

Section 19833.5 (a)(3)(c) Disclosure

Menifee Union Elementary School District provides more than 12 sick leave days in a school year to the following groups of employees who are CalSTRS members:

1. Superintendent
2. Assistant Superintendent

See accompanying note to supplementary information.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2007

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

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

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

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

Districts must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirements, whichever is greater, as required by Education Code Section 46201.

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.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION

JUNE 30, 2007

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.

Excess Sick Leave

This schedule provides information required by the Audit Guide for California K-12 Local Educational Agencies for excess sick leave authorized for members of the California State Teachers Retirement System (CalSTRS).

SUPPLEMENTARY INFORMATION - UNAUDITED

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET - UNAUDITED
JUNE 30, 2007**

	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
ASSETS			
Deposits and investments	\$ 57,476	\$ 392,911	\$ 166,808
Receivables	817	172,916	3,418
Due from other funds	-	620	-
Stores inventories	-	17,381	-
Total Assets	\$ 58,293	\$ 583,828	\$ 170,226
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 1,257	\$ 40,586	\$ 20,699
Due to other funds	2,183	1,430	-
Total Liabilities	3,440	42,016	20,699
Fund Balances:			
Reserved for:			
Stores inventories	-	17,381	-
Unreserved:			
Designated	54,853	524,431	149,527
Undesignated, reported in:			
Debt service funds	-	-	-
Total Fund Balance	54,853	541,812	149,527
Total Liabilities and Fund Balances	\$ 58,293	\$ 583,828	\$ 170,226

See accompanying note to supplementary information - unaudited.

Special Reserve Fund for Other than Capital Outlay	Building Fund	Bond Interest and Redemption Fund	COP Debt Service Fund	Total Non-Major Governmental Funds
\$ 34,943	\$ 585,013	\$ 697,985	\$ 592,435	\$ 2,527,571
464	10,329	-	-	187,944
-	-	-	-	620
-	-	-	-	17,381
<u>\$ 35,407</u>	<u>\$ 595,342</u>	<u>\$ 697,985</u>	<u>\$ 592,435</u>	<u>\$ 2,733,516</u>
\$ -	\$ 27,841	\$ -	\$ -	\$ 90,383
-	-	-	-	3,613
-	<u>27,841</u>	-	-	<u>93,996</u>
-	-	-	-	17,381
35,407	567,501	-	-	1,331,719
-	-	697,985	592,435	1,290,420
<u>35,407</u>	<u>567,501</u>	<u>697,985</u>	<u>592,435</u>	<u>2,639,520</u>
<u>\$ 35,407</u>	<u>\$ 595,342</u>	<u>\$ 697,985</u>	<u>\$ 592,435</u>	<u>\$ 2,733,516</u>

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - UNAUDITED
FOR THE YEAR ENDED JUNE 30, 2007**

	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
REVENUES			
Federal sources	\$ -	\$ 955,137	\$ -
Other State sources	342,249	58,615	254,260
Other local sources	2,599	1,136,700	11,160
Total Revenues	344,848	2,150,452	265,420
EXPENDITURES			
Current			
Instruction	216,144	-	-
Instruction-related activities:			
Supervision of instruction	101,815	-	-
Pupil services:			
Food services	-	1,868,149	-
All other pupil services	4,612	-	-
General administration:			
All other general administration	21,789	90,784	-
Plant services	-	-	641,289
Facility acquisition and construction	-	-	-
Debt service			
Principal	-	-	-
Interest and other	-	-	-
Total Expenditures	344,360	1,958,933	641,289
Excess (Deficiency) of Revenues Over Expenditures	488	191,519	(375,869)
Other Financing Sources (Uses)			
Transfers in	-	-	350,000
Transfers out	-	-	-
Net Financing Sources (Uses)	-	-	350,000
NET CHANGE IN FUND BALANCES	488	191,519	(25,869)
Fund Balance - Beginning	54,365	350,293	175,396
Fund Balance - Ending	\$ 54,853	\$ 541,812	\$ 149,527

See accompanying note to supplementary information - unaudited.

Special Reserve Fund for Other than Capital Outlay	Building Fund	Bond Interest and Redemption Fund	COP Debt Service Fund	Total Non-Major Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 955,137
-	-	5,795	-	660,919
1,755	184,346	600,915	27,695	1,965,170
1,755	184,346	606,710	27,695	3,581,226
-	-	-	-	216,144
-	-	-	-	101,815
-	-	-	-	1,868,149
-	-	-	-	4,612
-	-	-	-	112,573
-	225	-	-	641,514
-	1,714,972	-	-	1,714,972
-	-	175,000	295,000	470,000
-	-	605,707	294,290	899,997
-	1,715,197	780,707	589,290	6,029,776
1,755	(1,530,851)	(173,997)	(561,595)	(2,448,550)
-	-	-	561,628	911,628
-	(3,905,755)	-	-	(3,905,755)
-	(3,905,755)	-	561,628	(2,994,127)
1,755	(5,436,606)	(173,997)	33	(5,442,677)
33,652	6,004,107	871,982	592,402	8,082,197
\$ 35,407	\$ 567,501	\$ 697,985	\$ 592,435	\$ 2,639,520

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**NOTE TO SUPPLEMENTARY INFORMATION - UNAUDITED
JUNE 30, 2007**

NOTE 1 – PURPOSE OF SCHEDULES

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

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

INDEPENDENT AUDITORS' REPORTS

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

Governing Board
Menifee Union Elementary School District
Menifee, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Menifee Union Elementary School District as of and for the year ended June 30, 2007, which collectively comprise Menifee Union Elementary School District's basic financial statements and have issued our report thereon dated November 23, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting. Significant deficiencies are described in the Financial Statement Findings section of the accompanying Schedule of Findings and Questions Costs as items 2007-1 and 2007-2.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Menifee Union Elementary School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

Menifee Union Elementary School District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit Menifee Union Elementary School District's response and, accordingly, express no opinion on it.

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

Vavnick, Trini Day & Co., LLP

Rancho Cucamonga, California
November 23, 2007



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Governing Board
Menifee Union Elementary School District
Menifee, California

Compliance

We have audited the compliance of Menifee Union Elementary School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2007. Menifee Union Elementary School District's major Federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of Menifee Union Elementary School District's management. Our responsibility is to express an opinion on Menifee Union Elementary School District's compliance based on our audit.

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

In our opinion, Menifee Union Elementary School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

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

A *control deficiency* in a district's internal control over compliance 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 noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the District's internal control.

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

Menifee Union Elementary School District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Menifee Union Elementary School District's response and, accordingly, we express no opinion on it.

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

Vavrick, Trini, Day & Co., LLP

Rancho Cucamonga, California
November 23, 2007



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Governing Board
 Menifee Union Elementary School District
 Menifee, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Menifee Union Elementary School District as of and for the year ended June 30, 2007, and have issued our report thereon dated November 23, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2006-07*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance reporting	8	Yes
Kindergarten continuance	3	Yes
Independent study	23	Not Applicable
Continuation education	10	Not Applicable
Adult education	9	Not Applicable
Regional occupational centers and programs	6	Not Applicable
Instructional Time:		
School districts	6	Yes
County offices of education	3	Not Applicable
Community day schools	9	Not Applicable
Morgan-Hart Class Size Reduction	7	Not Applicable

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Instructional Materials:		
General requirements	12	Yes
K-8 only	1	Yes
9-12 only	1	Not Applicable
Ratios of Administrative Employees to Teachers	1	Yes
Early retirement incentive	4	Not Applicable
Gann limit calculation	1	Yes
School Construction Funds:		
School District bonds	3	Yes
State school facilities funds	1	Yes
Alternative pension plans	2	Yes, see below
Excess sick leave	3	Yes
Notice of right to elect California State Teachers Retirement		
System (CalSTRS) membership	1	Yes
Proposition 20 Lottery Funds (Cardenas Textbook Act of 2000)	2	Yes
State Lottery Funds (California State Lottery Act of 1984)	2	Yes
California School Age Families Education (Cal-SAFE) Program	3	Not Applicable
School Accountability Report Card	3	Yes
Class Size Reduction Program (including in Charter Schools):		
General requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	Not Applicable
District or charter schools with only one school serving K-3	4	Not Applicable
Charter Schools:		
Contemporaneous records of attendance	1	Not Applicable
Mode of instruction	1	Not Applicable
Non classroom-based instruction/independent study	15	Not Applicable
Determination of funding for non classroom-based instruction	3	Not Applicable
Annual instruction minutes classroom based	3	Not Applicable

We did not perform testing for Alternative Pension Plans Step 2 because it was determined that the District did not have an Alternative Pension Plan.

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

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

Vavrenik, Trina, Day! C., LLP

Rancho Cucamonga, California
November 23, 2007

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2007**

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>Yes</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>None reported</u>
Type of auditors' report issued on compliance for major programs:	<u>Unqualified</u>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	<u>No</u>
Identification of major programs:	

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I
10.553 and 10.555	Child Nutrition Cluster
66.036	Clean School Bus

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

STATE AWARDS

Internal control over State programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>None reported</u>
Type of auditors' report issued on compliance for State programs:	<u>Unqualified</u>

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2007

The following findings represent significant deficiencies, material weaknesses, and/or instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. The findings have been coded as follows:

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

BLENDDED COMPONENT UNITS

2007-1 30000

Criteria or Specific Requirements

The District has the fiduciary responsibility to account for the financial transactions of the Community Facilities Districts as required by the bond documents for each CFD.

Condition

The District uses spreadsheets to reconcile the monthly statements received from the various trustees for each of the Community Facility Districts (CFD). These spreadsheets reconcile the monthly activity and also summarize all of the financial transactions into a trail balance format. The trial balances are used at the end of the year to prepare the District's financial statements. These spreadsheets-contained misclassifications of revenues and expenditures that required a significant amount of additional work to properly classify the activity.

Questioned Costs

None

Context

The misclassifications were discovered during our testing of the year end reconciliations of the financial activity of the CFD's.

Effect

The District was required to update the classifications so that the financial activity of the CFD's would be properly presented within the District's financial statements.

Cause

The financial activity was incorrectly classified within the District's reconciliation process.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2007

Recommendation

The District should review the monthly reconciliations of the CFD financial activity to ensure that all transactions have been properly classified. To assist in the process the debt service payments should be agreed to semi-annual debt service schedules for each CFD to insure that payments have been made and are correctly classified in the financial summaries.

District's Response

The District appreciates the above comments and has already acted on the auditor's recommended actions as follows:

- 1) Corrections have been made to our internal spreadsheets to better reflect bank statement activity in the monthly reconciliation process which will produce more detailed trial balances, separate school improvement accounts from non-school accounts, and report reimbursements and expenditures in separate columns.
- 2) Copies of Debt Service Schedules for each CFD have been placed in the front of each CFD file and will be reconciled against the bank statements whenever the activity is also entered on our spreadsheets.
- 3) To support our Facilities Accounting Department and strengthen the District's internal control procedures, all monthly reconciliations will be reviewed by the Fiscal Services Supervisor or Director to ensure proper classifications have been recorded, debt schedule payments are accurate, and reimbursements have been identified separately from expenditures and reconcile to the general ledger.

CAPITAL ASSETS SYSTEM

2007-2 30000

Criteria or Specific Requirements

The District is required to account for all of the capital assets owned by the District. To meet this requirement the District uses the County's Galaxy Capital Asset module.

Condition

We found that the system generated reports contain adjustments to the beginning balances of capital assets that were not adjustments but were instead additional expenditures related to an asset that were under construction. The Districts internal controls should identify these items and resolve the presentation of information as a routine part of the analysis of the information output of the system.

Questioned Costs

None

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2007

Context

The discrepancies in the reports were discovered during our testing of the capital assets.

Effect

The proper classification of capital asset activity.

Cause

The County Galaxy Capital Asset module did not account for additions to ongoing projects accurately.

Recommendation

We believe that the issue is a reporting issue within the galaxy system. The County has indicated that the reports generated will be modified to provide better information, however, the internal controls of the District should include procedures to identify discrepancies and resolve them as part of routine management of the system information.

District's Response

The District has continually worked with the Riverside County Office of Education (RCOE) to improve the Asset Module of the Galaxy System on both reporting issues and system enhancements. RCOE has agreed to correct the beginning balance adjustment issue which the District will either ensure is done through this system correction or if not, done manually prior to the close of the fiscal year. As part of the year-end process, the Purchasing Agent will verify the listing(s) of Capital Assets by major category with each assigned Property Manager and/or the Facilities Director and the Asst. Superintendent of Business to ensure additions and deletions have occurred properly throughout the year. To support our Purchasing Department and strengthen the District's internal control procedures, all monthly reconciliations will be reviewed by the Fiscal Services Supervisor or Director to ensure proper classifications and amounts have been recorded, continue to strive for improvement to the Galaxy system with RCOE, and make any necessary manual adjustments at year end to report the capital asset values properly by fiscal year as recommended by auditors.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007**

None reported.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007**

None reported.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2007

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

Financial Statement Findings

2006-1 30000

CAPITAL ASSETS

Findings:

Since the 2003-2004 fiscal year, the District has participated in a pilot capital asset software program with the County Office of Education to account for the District's capital assets in accordance with GASB Statement No. 34 requirements. The program has been structured to allow for an automated approach which tracks capital asset additions from purchase orders into the capital asset system. We noted several areas of concern relating to the accounting for the District's capital assets.

- The District has not reconciled expenditures for capital outlay, facilities acquisition and construction, and off ledger capital outlay (assets processed through the Community Facility District trustee statements) with the capital asset program.
- The District has not reviewed timing issues relating to the automated portion of the capital asset software program. It appears that the software program may not be accounting for year end cutoff properly. Specifically, capital assets that are received and/or constructed before year end for which a payable is accrued may be double counted within the capital asset program. The asset may be added to the system once in the year when the payable is recorded and a second time when the invoice is paid in the subsequent fiscal year.
- The District has not devoted sufficient time during the fiscal year to ensure that the assets as recorded in the asset system have been reconciled to the transactions per the District's accounting systems.

Recommendation:

The District continues to experience significant growth, therefore, we suggest that a monthly reconciliation of capital assets should be performed. This reconciliation should include the review of expenditures as reported in the SACS account code functions for capital assets (primarily the functions for facilities acquisition and construction and all charges relating to capital outlay, the 6000 series of accounts). These accounts should be summarized and compared to capital asset records of building, site improvement and equipment additions within the software program.

The District should also continue to work with the County Office of Education on a monthly basis to ensure that all aspects of the capital asset software are working properly to record the District's capital assets including the analysis of year end cutoff procedures.

Current Status:

Partially implemented, see 2007-2.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2007**

2006-2 30000

PAYROLL FUNCTIONS

Findings:

A segregation of duties between payroll and personnel functions should be maintained to provide for an adequate internal control structure. We noted that Payroll Department employees have the ability to create new employees within the Galaxy system. This function should be restricted to the Personnel Department.

We noted that a report is provided by the County Office of Education that provides the details for all changes to data within the payroll system. However, the District is not documenting the review of this report. Therefore, we were unable to determine if the changes made by the Payroll Department were properly authorized and recorded in the system.

Recommendation:

To provide for an adequate segregation of duties, the Payroll Department should not have the ability/access to create an employee within the Galaxy system. User access restrictions should be reviewed for these departments. We also suggest that user access relating to the use of the payroll and personnel system should be documented by job description. The specific system access appropriate to that position should be identified and recorded. This would enable the District to track changes. If an employee moves to another position, former access can be eliminated and the new access can be assigned consummate with the new position. The report from the County Office should be reviewed independently of the Payroll Department. This report can play a key roll in preventing unauthorized changes from going undetected.

Current Status:

Implemented.

2006-3 30000

POSITION CONTROL

Findings:

The position control document outlines all Board approved positions within the District. Currently, this document is maintained by the Payroll Supervisor. This does not provide adequate segregation of duties. As noted in finding 2006-2, the Payroll Department had the ability to create new employees within the Galaxy system. The combination of maintaining the position control document and the ability to create new employees without outside review causes a deficiency in the internal control system.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2007**

Recommendation:

The position control document should be an Accounting/Budget Department function separate from the Payroll Department. Personnel Department should control hiring, Payroll Department should process payroll, and Accounting/Budget Department should control positions.

Current Status:

Implemented

