



**MENIFEE UNION ELEMENTARY
SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2012

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

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FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Governing Board
Menifee Union Elementary School District
Menifee, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Menifee Union Elementary School District (the District) as of and for the year ended June 30, 2012, 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 2011-2012*, 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 previously 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, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2012, 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 assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 11 and the schedule of other post employment benefits and budgetary comparison information pages 53 and 54 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements. The *Schedule of Expenditures of Federal Awards*, as required by *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133)* and other supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the *supplementary information* is fairly stated in all material respects in relation to the financial statements as a whole.

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California
October 8, 2012



MENIFEE UNION SCHOOL DISTRICT

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Superintendent
Linda C. Callaway, Ed.D.

This section of Menifee Union Elementary School District's (the District) (audited) annual financial report presents our discussion and analysis of the Menifee Union Elementary School District's financial performance during the fiscal year that ended on June 30, 2012. Please read it in conjunction with the District's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

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

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

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

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

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

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

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

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Assets and the Statement of Activities

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

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

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

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

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

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

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

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

THE DISTRICT AS TRUSTEE

Reporting the District's Fiduciary Responsibilities

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

THE DISTRICT AS A WHOLE

Net Assets

The District's net assets were \$204,151,334 for the fiscal year ended June 30, 2012. Of this amount, \$10,183,134 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

	<u>Governmental Activities</u>	
	<u>2012</u>	<u>2011</u>
ASSETS		
Current and other assets	\$ 56,439,398	\$ 50,168,548
Capital assets	<u>203,656,457</u>	<u>202,862,467</u>
Total Assets	<u>260,095,855</u>	<u>253,031,015</u>
LIABILITIES		
Current liabilities	1,836,474	1,975,678
Long-term obligations	<u>54,108,047</u>	<u>54,178,383</u>
Total Liabilities	<u>55,944,521</u>	<u>56,154,061</u>
NET ASSETS		
Invested in capital assets, net of related debt	155,407,333	159,291,223
Restricted	38,560,867	24,028,560
Unrestricted	<u>10,183,134</u>	<u>13,557,171</u>
Total Net Assets	<u>\$ 204,151,334</u>	<u>\$ 196,876,954</u>

The \$10,183,134 in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

Changes in Net Assets

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

TABLE 2

	Governmental Activities	
	2012	2011
Revenues		
Program revenues:		
Charges for services	\$ 1,531,034	\$ 1,154,662
Operating grants and contributions	11,483,821	12,220,158
Capital grants and contributions	11,304,439	-
General revenues:		
State revenue limit sources	44,522,632	38,853,693
Property and other taxes	6,610,226	6,276,616
Other general revenues	4,160,596	14,562,713
Total Revenues	<u>79,612,748</u>	<u>73,067,842</u>
Expenses		
Instruction-related	52,232,810	51,685,621
Pupil services	6,106,403	5,709,874
Administration	4,477,986	4,333,970
Plant services	6,727,956	6,523,883
Other	2,793,213	2,795,635
Total Expenses	<u>72,338,368</u>	<u>71,048,983</u>
Change in Net Assets	<u>\$ 7,274,380</u>	<u>\$ 2,018,859</u>

Governmental Activities

As reported in the *Statement of Activities* on page 13 the cost of all of our governmental activities this year was \$72,338,368. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$6,610,226 because the cost was paid by those who benefited from the programs (\$1,531,034) or by other governments and organizations who subsidized certain programs with grants and contributions (\$22,788,260). We paid for the remaining "public benefit" portion of our governmental activities with \$44,522,632 in State funds, and with other revenues, like interest and general entitlements.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

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

TABLE 3

	Total Net Cost of Services	
	2012	2011
Instruction	\$ 28,290,690	\$ 37,969,216
Instruction-related activities	4,811,464	4,467,173
Other pupil services	2,124,089	2,475,352
General administration	3,874,466	3,636,088
Plant services	6,670,539	6,464,938
Other	2,247,826	2,661,396
Total	<u>\$ 48,019,074</u>	<u>\$ 57,674,163</u>

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$54,521,271 as detailed below:

TABLE 4

	Fund Balance at June 30,	
	2012	2011
General Fund	\$ 12,267,710	\$ 13,818,844
Capital Facilities Fund	27,564,531	15,323,630
Capital Project for Blended Component Units Fund	7,477,257	5,703,506
Child Development Fund	-	18,104
Cafeteria Fund	1,239,315	996,478
Building Fund	3,643,487	10,131,130
Bond Interest and Redemption Fund	1,736,730	1,739,603
COP Debt Service Fund	592,241	592,240
Total	<u>\$ 54,521,271</u>	<u>\$ 48,323,535</u>

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted in September 2012. (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 53.)

COMMENTS ON MAJOR FUNDS

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

- The General Fund is the chief operating fund of the District used to account for ordinary operations. All transactions except for those required or permitted by law to be in another fund are accounted for in this fund.
- The Capital Facilities Fund (Fund 25) is used primarily to account separately for monies received from fees levied on developers to meet pupil housing needs. Home construction within the District boundaries was minimal for the year ending June 30, 2012.
- The Capital Projects Fund for Blended Component Units (Fund 49) is used to account for capital projects financed by Mello-Roos Community Facilities Districts and similar entities that are considered blended component units of the District under generally accepted accounting principles (GAAP).

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2012, the District had \$203.7 million in a broad range of capital assets, including land, buildings, and equipment.

TABLE 5

(Net of Accumulated Depreciation)

	Governmental Activities	
	2012	2011
Land and construction in process	\$ 56,483,559	\$ 50,540,916
Buildings and improvements/site improvements	145,483,798	150,030,095
Equipment	1,689,100	2,291,456
Total	<u>\$ 203,656,457</u>	<u>\$ 202,862,467</u>

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

Long-Term Obligations

At the end of this year, the District had \$54.1 million in long-term obligations outstanding versus \$54.2 million last year. Those long-term obligations consisted of the following:

	Governmental Activities	
	2012	2011
General obligation bonds (financed with property taxes)	\$ 47,995,056	\$ 47,719,750
Certificates of participation	5,950,000	6,280,000
Accumulated vacation	162,075	159,820
Capital leases	14,400	28,800
Net OPEB asset	(13,484)	(9,987)
Total	<u>\$ 54,108,047</u>	<u>\$ 54,178,383</u>

The District's general obligation bond rating with Fitch is A+, and with S&P it is an A-. The State limits the amount of general obligation bonds that districts can issue to five percent of the assessed value of all taxable property within the District's boundaries. The District's outstanding general obligation bonds of \$48 million are below this statutorily imposed limit.

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2011-2012

- The District's Academic Performance Index (API) is estimated to have increased five points to 848. Every school in the District has a score higher than 819.
- The District has two elementary schools identified as California Distinguished Schools, one elementary school is being considered as a Federal Blue Ribbon School, and three elementary schools were named a 2011 California Business for Education Excellence Honor Roll Schools.
- The District identified Collective Commitments in order to prioritize fiscal and human resources.
- The District continues to expand and improve on its instructional practices with the coaching support program for the benefit of its stakeholders.
- The District continues to seek to improve support services that offer cost savings.
- The District completed the new construction of its 10th elementary school (Herk Bouris) and has acquired property for its 10th elementary school (ES#10). In addition, the District has completed facility upgrades at a number of sites.
- The District has expanded the School Breakfast Program to all school sites.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The District anticipates enrollment will remain steady. As of August 23, 2012, the enrollment count of 8845 pupils is 0.6 percent lower than the California Basic Educational Data System (CBEDS) count of 8898 taken in the previous year on October 5, 2011.
- The District projects enrollment growth of approximately 0.7 percent, or 60 pupils, in each of the fiscal years 2012-2013, 2013-2014, and 2014-2015.
- Numerous developers continue to build within the District boundaries. However, construction is not at the scale or quantity as has occurred in the past.
- The District does not foresee any change in the State's economic condition within the projection period and anticipates an ongoing \$3.8 million decrease (\$441/ADA) to the base revenue limit funding in each of the fiscal years 2012-2013, 2013-2014, and 2014-2015.
- The District anticipates a period of time of financial austerity for the projection period.
- Staffing issues and financial planning will continue to be very conservative during the projection period.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

STATEMENT OF NET ASSETS JUNE 30, 2012

	Governmental Activities
ASSETS	
Deposits and investments	\$ 35,909,002
Receivables	19,746,097
Stores inventories	19,565
Deferred charges	764,734
Capital Assets:	
Land and construction in process	56,483,559
Other capital assets	184,701,855
Less: Accumulated depreciation	<u>(37,528,957)</u>
Total Capital Assets	<u>203,656,457</u>
Total Assets	<u><u>260,095,855</u></u>
 LIABILITIES	
Accounts payable	1,129,370
Accrued interest	683,081
Deferred revenue	24,023
Long-term Obligations:	
Current portion	609,400
Noncurrent portion	<u>53,498,647</u>
Total Long-term Obligations	<u>54,108,047</u>
Total Liabilities	<u><u>55,944,521</u></u>
 NET ASSETS	
Invested in capital assets, net of related debt	155,407,333
Restricted for:	
Debt service	1,053,649
Capital projects	34,692,948
Educational programs	1,574,955
Other activities	1,239,315
Unrestricted	<u>10,183,134</u>
Total Net Assets	<u><u>\$ 204,151,334</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, 2012**

Functions/Programs	Expenses	Program Revenues		Capital Grants and Contributions	Net (Expenses) Revenues and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions		Governmental Activities
Governmental Activities:					
Instruction	\$ 46,028,986	\$ -	\$ 6,433,857	\$ 11,304,439	\$ (28,290,690)
Instruction-related activities:					
Supervision of instruction	1,946,678	-	1,391,317	-	(555,361)
Instructional library, media, and technology	623,500	-	-	-	(623,500)
School site administration	3,633,646	-	1,043	-	(3,632,603)
Pupil services:					
Home-to-school transportation	1,416,720	168,396	129,181	-	(1,119,143)
Food services	2,365,783	783,269	1,811,080	-	228,566
All other pupil services	2,323,900	-	1,090,388	-	(1,233,512)
General administration:					
Data processing	860,857	-	-	-	(860,857)
All other general administration	3,617,129	52,490	551,030	-	(3,013,609)
Plant services	6,727,956	11,291	46,126	-	(6,670,539)
Ancillary services	3,494	-	-	-	(3,494)
Interest on long-term obligations	2,524,211	-	-	-	(2,524,211)
Other outgo	265,508	515,588	29,799	-	279,879
Total Governmental Activities	\$ 72,338,368	\$ 1,531,034	\$ 11,483,821	\$ 11,304,439	(48,019,074)
General revenues and subventions:					
Property taxes, levied for general purposes					4,384,326
Property taxes, levied for debt service					2,144,335
Property taxes, levied for other specific purposes					81,565
State aid not restricted to specific purposes					44,522,632
Interest and investment earnings					42,153
Transfers between agencies					110,000
Miscellaneous					4,008,443
Total General Revenues and Subventions					55,293,454
Change in Net Assets					7,274,380
Net Assets - Beginning					196,876,954
Net Assets - Ending					\$ 204,151,334

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

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2012**

	General Fund	Capital Facilities Fund	County School Facilities Fund
ASSETS			
Deposits and investments	\$ 5,486,972	\$ 15,545,344	\$ -
Receivables	19,441,961	19,218	-
Due from other funds	119,880	12,005,479	-
Stores inventories	-	-	-
Total Assets	\$ 25,048,813	\$ 27,570,041	\$ -
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 750,429	\$ 5,510	\$ -
Due to other funds	12,006,651	-	-
Deferred revenue	24,023	-	-
Total Liabilities	12,781,103	5,510	-
Fund Balances:			
Nonspendable	5,000	-	-
Restricted	1,574,955	27,564,531	-
Assigned	4,345,855	-	-
Unassigned	6,341,900	-	-
Total Fund Balances	12,267,710	27,564,531	-
Total Liabilities and Fund Balances	\$ 25,048,813	\$ 27,570,041	\$ -

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

Capital Projects Fund for Blended Component Units	Non-Major Governmental Funds	Total Governmental Funds
\$ 7,587,257	\$ 7,289,429	\$ 35,909,002
-	284,918	19,746,097
-	1,172	12,126,531
-	19,565	19,565
<u>\$ 7,587,257</u>	<u>\$ 7,595,084</u>	<u>\$ 67,801,195</u>
\$ -	\$ 373,431	\$ 1,129,370
110,000	9,880	12,126,531
-	-	24,023
<u>110,000</u>	<u>383,311</u>	<u>13,279,924</u>
-	19,565	24,565
7,477,257	7,192,208	43,808,951
-	-	4,345,855
-	-	6,341,900
<u>7,477,257</u>	<u>7,211,773</u>	<u>54,521,271</u>
<u>\$ 7,587,257</u>	<u>\$ 7,595,084</u>	<u>\$ 67,801,195</u>

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012**

Total Fund Balance - Governmental Funds		\$ 54,521,271
Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of capital assets is	\$ 241,185,414	
Accumulated depreciation is	(37,528,957)	
Total Capital Assets		203,656,457
Expenditures relating to issuance of debt of next fiscal year were recognized on the modified accrual basis, but should not be recognized on the accrual basis. Costs of issuance are capitalizable and amortized over the life of the debt.		764,734
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.		(683,081)
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	44,937,964	
Unamortized premium	1,339,087	
Certificates of participation	5,950,000	
Capital lease obligations	14,400	
Accumulated vacation	162,075	
Net OPEB Asset	(13,484)	
In addition, the District previously issued "capital appreciation" general obligation bonds. The cumulative capital accretion on the general obligation bonds is:		
Total Long-Term Obligations	<u>1,718,005</u>	<u>(54,108,047)</u>
Total Net Assets - Governmental Activities		<u><u>\$ 204,151,334</u></u>

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

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2012**

	General Fund	Capital Facilities Fund
REVENUES		
Revenue limit sources	\$ 42,906,728	\$ -
Federal sources	2,283,804	-
Other State sources	8,915,573	-
Other local sources	4,936,280	1,858,316
Total Revenues	59,042,385	1,858,316
EXPENDITURES		
Current		
Instruction	40,566,171	-
Instruction-related activities:		
Supervision of instruction	1,852,771	-
Instructional library, media, and technology	623,500	-
School site administration	3,632,424	-
Pupil services:		
Home-to-school transportation	1,253,671	-
Food services	-	-
All other pupil services	2,299,892	-
General administration:		
Data processing	860,857	-
All other general administration	3,473,553	13,903
Plant services	6,065,647	-
Facility acquisition and construction	11,043	358,272
Ancillary services	3,494	-
Other outgo	5,334	-
Debt service		
Principal	-	14,400
Interest and other	-	-
Total Expenditures	60,648,357	386,575
Excess (Deficiency) of Revenues Over Expenditures	(1,605,972)	1,471,741
Other Financing Sources (Uses)		
Transfers in	163,897	11,378,108
Other sources	(783)	-
Transfers out	(108,276)	(608,948)
Net Financing Sources (Uses)	54,838	10,769,160
NET CHANGE IN FUND BALANCES	(1,551,134)	12,240,901
Fund Balances - Beginning	13,818,844	15,323,630
Fund Balances - Ending	\$ 12,267,710	\$ 27,564,531

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

County School Facilities Fund	Capital Projects Fund for Blended Component Units	Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 42,906,728
-	-	1,771,913	4,055,717
11,304,439	-	477,395	20,697,407
-	2,143,925	3,015,158	11,953,679
<u>11,304,439</u>	<u>2,143,925</u>	<u>5,264,466</u>	<u>79,613,531</u>
-	-	194,388	40,760,559
-	-	91,652	1,944,423
-	-	-	623,500
-	-	1,222	3,633,646
-	-	-	1,253,671
-	-	2,365,783	2,365,783
-	-	24,008	2,323,900
-	-	-	860,857
-	-	129,673	3,617,129
-	-	54,439	6,120,086
-	-	6,524,463	6,893,778
-	-	-	3,494
-	260,174	-	265,508
-	-	505,000	519,400
-	-	2,229,278	2,229,278
-	260,174	12,119,906	73,415,012
<u>11,304,439</u>	<u>1,883,751</u>	<u>(6,855,440)</u>	<u>6,198,519</u>
-	-	589,658	12,131,663
-	-	-	(783)
<u>(11,304,439)</u>	<u>(110,000)</u>	<u>-</u>	<u>(12,131,663)</u>
<u>(11,304,439)</u>	<u>(110,000)</u>	<u>589,658</u>	<u>(783)</u>
-	1,773,751	(6,265,782)	6,197,736
-	5,703,506	13,477,555	48,323,535
<u>\$ -</u>	<u>\$ 7,477,257</u>	<u>\$ 7,211,773</u>	<u>\$ 54,521,271</u>

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2012

Total Net Change in Fund Balances - Governmental Funds	\$ 6,197,736
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	\$ 6,228,963
Depreciation expense	<u>(5,434,973)</u>
	793,990
In the Statement of Activities, Other Postemployment Benefits (OPEB) are measured by an actuarially determined Annual Required Contribution (ARC). In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, amounts contributed toward the OPEB asset were more than the ARC by \$3,497.	3,497
In the Statement of Activities, certain operating expenses - compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Amounts paid were less than amounts earned by \$2,255 during the year.	(2,255)
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	330,000
Capital lease obligations	14,400

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 STATEMENT OF ACTIVITIES (CONTINUED) FOR THE YEAR ENDED JUNE 30, 2012

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

Amortization of debt premium	\$ 56,945	
Amortization of cost of issuance	<u>(14,226)</u>	
Combined adjustment		\$ 42,719

Interest on long-term obligations in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the Statement of Activities is the result of two factors. First, accrued interest on the general obligation bonds and certificates of participation decreased by \$226,544, and second, \$507,251 of additional accumulated interest was accreted on the District's "capital appreciation" general obligation bonds.

	<u>(280,707)</u>
Change in Net Assets of Governmental Activities	<u><u>\$ 7,274,380</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, 2012**

	<u>Agency Funds</u>	
	<u>Fund for Special Tax Bonds</u>	<u>Associated Student Bodies</u>
ASSETS		
Deposits and investments	\$ 11,307,851	\$ 90,921
LIABILITIES		
Due to student groups	\$ -	\$ 90,921
Due to bond holders	11,307,851	-
Total Liabilities	<u>\$ 11,307,851</u>	<u>\$ 90,921</u>

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

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

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

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

Component Units

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

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

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

Financial Presentation

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

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Basis of Presentation - Fund Accounting

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

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

Major Governmental Funds

General Fund The General Fund is the chief operating fund for all districts. It is used to account for the ordinary operations of the District. All transactions except those accounted for in another fund are accounted for in this fund.

One fund currently defined as special revenue fund in the California State Accounting Manual (CSAM) does not meet the GASB Statement No. 54 special revenue fund definition. Specifically, Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects is not substantially composed of restricted or committed revenue sources. While this fund is authorized by statute and will remain open for internal reporting purposes, this fund functions effectively as an extension of the General Fund, and accordingly has been combined with the General Fund for presentation in these audited financial statements.

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

County School Facilities Fund The County School Facilities Fund is established pursuant to *Education Code* Section 17070.43 to receive apportionments from the 1998 State School Facilities Fund (Proposition 1A), the 2002 State School Facilities Fund (Proposition 47), or the 2004 State School Facilities Fund (Proposition 55) authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (*Education Code* Section 17070 et seq.).

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

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

Non-Major Governmental Funds

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

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

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

Capital Project Funds The Capital Project funds are used to account for and report financial resources that are restricted, committed, or assigned to the acquisition or construction of major capital facilities and other capital assets (other than those financed by proprietary funds and trust funds).

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

Debt Service Funds The Debt Service funds are used to account for the accumulation of restricted, committed, or assigned resources for and the payment of principal and interest on general long-term obligations.

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

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

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

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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.

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

Basis of Accounting - Measurement Focus

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

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

Net 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 balances reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds on a modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Fiduciary Funds Fiduciary Funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are excluded from the government-wide financial statements because they do not represent resources of the District.

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

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

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

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

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

Investments

Investments held at June 30, 2012, 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.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Store Inventories

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

Capital Assets and Depreciation

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

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

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

Interfund Balances

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

Compensated Absences

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

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

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

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

In the government-wide financial statements and in the proprietary fund type financial statements, long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. 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 Balances - Governmental Funds

As of June 30, 2012, fund balances of the governmental funds are classified as follows:

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

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

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

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

Unassigned - all other spendable amounts.

Spending Order Policy

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

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Minimum Fund Balance Policy

In fiscal year 2010-2011, the governing board adopted a minimum fund balance policy for the General Fund in order to protect the district against revenue shortfalls or unpredicted on-time expenditures. The policy intends for the District to maintain a minimum fund balance equal to three percent of the District's general fund annual operating expenditures and other financing uses plus two months of general fund annual operating expenditures and other financing uses. If a fund balance drops below five percent, it shall be recovered at a rate of two percent minimally, each year, when financial circumstances permit.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The government-wide financial statements report \$38,560,867 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.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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

Property Tax

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

New Accounting Pronouncements

In November 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of GASB Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, this Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination.

This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. For component units that currently are blended based on the "substantively the same governing body" criterion, it additionally requires that (1) the primary government and the component unit have a financial benefit or burden relationship or (2) management (below the level of the elected officials) of the primary government have operational responsibility (as defined in paragraph 8a) for the activities of the component unit. New criteria also are added to require blending of component units whose total debt outstanding is expected to be repaid entirely or almost entirely with resources of the primary government. The blending provisions are amended to clarify that funds of a blended component unit have the same financial reporting requirements as a fund of the primary government. Lastly, additional reporting guidance is provided for blending a component unit if the primary government is a business-type activity that uses a single column presentation for financial reporting.

This Statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. Early implementation is encouraged.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier implementation is encouraged.

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process. Prior to the issuance of this Statement, only two such pronouncements have been issued. Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, requires the reporting of a deferred outflow of resources or a deferred inflow of resources for the changes in fair value of hedging derivative instruments, and Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, requires a deferred inflow of resources to be reported by a transferor government in a qualifying service concession arrangement. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4.

This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations.

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier implementation is encouraged.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

In March 2012, GASB issued Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

This Statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. As a result, governments should base their decisions about fund type classification on the nature of the activity to be reported, as required in Statement 54 and Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

This Statement also amends Statement 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, and result in guidance that is consistent with the requirements in Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, respectively.

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier implementation is encouraged.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by State and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

Statement No. 67, *Financial Reporting for Pension Plans*, revises existing standards of financial reporting for most pension plans. This Statement and Statement No. 67 establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement - determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2012, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 35,909,002
Fiduciary funds	<u>11,398,772</u>
Total Deposits and Investments	<u><u>\$ 47,307,774</u></u>

Deposits and investments as of June 30, 2012, consist of the following:

Cash on hand and in banks	\$ 90,921
Cash in revolving	5,000
Investments	<u>47,211,853</u>
Total Deposits and Investments	<u><u>\$ 47,307,774</u></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, 2012

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, 2012

Weighted Average Maturity

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

Investment Type	Fair Value	Maturity Date/ Average Maturity In Days
Riverside County Investment Pool	\$ 27,757,773	431*
First American Prime Obligation Fund Class Y	18,895,108	7/1/2012
FSA Investment Agreement	592,240	8/15/2025
Total	\$ 47,245,121	

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investments with the Riverside County Investment Pool have been rated AAA/V1 by Fitch Ratings. The First American Prime Obligation Funds are rated AAA by Moody's Investor Service. The Financial Security Assurance (FSA) Investment Agreement is not required to be rated. However, the investment agreement is insured by FSA who is rated AAA by Moody's Investor Service.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2012, the District had no balances exposed to custodial credit risk. All balances were fully insured.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

NOTE 3 - RECEIVABLES

Receivables at June 30, 2012, consisted of intergovernmental grants, entitlements, interest, and other local sources. All receivables are considered collectible in full.

	General Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal Government				
Categorical aid	\$ 403,769	\$ -	\$ 256,070	\$ 659,839
State Government				
Apportionment	15,406,883	-	-	15,406,883
Categorical aid	1,204,954	-	22,031	1,226,985
Lottery	659,404	-	-	659,404
Local Government				
Interest	7,838	19,218	5,641	32,697
SELPA master plan	1,465,591	-	-	1,465,591
Other local sources	293,522	-	1,176	294,698
Total	<u>\$ 19,441,961</u>	<u>\$ 19,218</u>	<u>\$ 284,918</u>	<u>\$ 19,746,097</u>

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 38,091,970	\$ 1,790,656	\$ -	\$ 39,882,626
Construction in process	12,448,946	4,172,595	20,608	16,600,933
Total Capital Assets Not Being Depreciated	<u>50,540,916</u>	<u>5,963,251</u>	<u>20,608</u>	<u>56,483,559</u>
Capital Assets Being Depreciated				
Site improvements	7,883,545	209,174	-	8,092,719
Buildings and improvements	170,328,871	12,532	-	170,341,403
Furniture and equipment	6,233,824	64,614	30,705	6,267,733
Total Capital Assets Being Depreciated	<u>184,446,240</u>	<u>286,320</u>	<u>30,705</u>	<u>184,701,855</u>
Total Capital Assets	<u>234,987,156</u>	<u>6,249,571</u>	<u>51,313</u>	<u>241,185,414</u>
Less Accumulated Depreciation				
Site improvements	1,547,050	404,050	-	1,951,100
Buildings and improvements	26,635,271	4,363,953	-	30,999,224
Furniture and equipment	3,942,368	666,970	30,705	4,578,633
Total Accumulated Depreciation	<u>32,124,689</u>	<u>5,434,973</u>	<u>30,705</u>	<u>37,528,957</u>
Governmental Activities Capital Assets, Net	<u>\$ 202,862,467</u>	<u>\$ 814,598</u>	<u>\$ 20,608</u>	<u>\$ 203,656,457</u>

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
Instruction	\$ 5,271,924
Home-to-school transportation	163,049
Total Depreciation Expenses Governmental Activities	<u>\$ 5,434,973</u>

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 5 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund receivable and payable balances at June 30, 2012, between major and non-major governmental funds are as follows:

Due To	Due From			Total
	General Fund	Capital Projects Fund for Blended Component Units	Non-Major Governmental Funds	
General Fund	\$ -	\$ 110,000	\$ 9,880	\$ 119,880
Capital Facilities Fund	12,005,479	-	-	12,005,479
Non-Major Governmental Funds	1,172	-	-	1,172
Total	<u>\$ 12,006,651</u>	<u>\$ 110,000</u>	<u>\$ 9,880</u>	<u>\$ 12,126,531</u>

A balance of \$12,000,000 is due to the Capital Facilities Fund from the General Fund for temporary loan. The balance of 110,00 is due to the General Fund from the Capital Projects Fund for Blended Component Units for administrative expense payment.

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

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

Operating Transfers

Interfund transfers for the year ended June 30, 2012, consisted of the following:

Transfer To	Transfer From				Total
	General Fund	Capital Facilities Fund	County School Facilities Fund	Capital Projects Fund for Blended Component Units	
General Fund	\$ -	\$ 53,897	\$ -	\$ 110,000	\$ 163,897
Capital Facilities Fund	73,669	-	11,304,439	-	11,378,108
Non-Major Governmental Funds	34,607	555,051	-	-	589,658
Total	<u>\$ 108,276</u>	<u>\$ 608,948</u>	<u>\$ 11,304,439</u>	<u>\$ 110,000</u>	<u>\$ 12,131,663</u>

The General Fund transferred to the Child Development (Non-Major) Governmental Fund for contribution to cover costs.	\$ 34,607
The General Fund transferred to the Capital Facilities Fund for interest owed on monies borrowed.	73,669
The Capital Facilities Fund transferred to the COP Debt Service Fund for debt service payments.	555,051
The Capital Facilities Fund transferred to the General Fund for three percent of the developer fees collected for Administration (<i>Education Code</i> Section 17620).	53,897
The County School Facilities Fund transferred to the Capital Facilities Fund for reimbursement of costs.	11,304,439
The Capital Projects for Blended Component Units Fund transferred to the General Fund for reimbursement of costs.	110,000
Total	<u>\$ 12,131,663</u>

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2012, consisted of the following:

	General Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total
Vendor payables	\$ 316,098	\$ 2,640	\$ 192,017	\$ 510,755
State Apportionment	309,298	-	-	309,298
Salaries and benefits	125,033	-	10,676	135,709
Construction payables	-	2,870	170,738	173,608
Total	<u>\$ 750,429</u>	<u>\$ 5,510</u>	<u>\$ 373,431</u>	<u>\$ 1,129,370</u>

NOTE 7 - DEFERRED REVENUE

Deferred revenue at June 30, 2012, consists of the following:

Federal financial assistance	<u>\$ 24,023</u>
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MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 8 - LONG-TERM OBLIGATIONS

Summary

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

	Balance Beginning of Year	Addition	Deductions	Balance End of Year	Due in One Year
General obligation bonds	\$ 46,323,718	\$ 507,251	\$ 175,000	\$ 46,655,969	\$ 250,000
Premium on issuance	1,396,032	-	56,945	1,339,087	-
Certificates of Participation					
2004 Refunding Series	6,280,000	-	330,000	5,950,000	345,000
Accumulated vacation	159,820	2,255	-	162,075	-
Capital leases	28,800	-	14,400	14,400	14,400
Net OPEB Asset	(9,987)	71,349	74,846	(13,484)	-
	<u>\$ 54,178,383</u>	<u>\$ 580,855</u>	<u>\$ 651,191</u>	<u>\$ 54,108,047</u>	<u>\$ 609,400</u>

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

Series 2002 A

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

Series 2002 B

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

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

Series 2008 A

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

Series 2008 B and C

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

Series	Fiscal Year of Maturities	Interest and Accretion Rates	Original Issue	Bonds/Premium			Bonds/Premium Outstanding End of Year	Due in One Year
				Outstanding Beginning of Year	Accreted Interest Addition	Redeemed or Amortized		
2002 A	2027-2028	2.37-7.40%	\$ 9,429,203	\$ 9,198,880	\$ 58,476	\$ 75,000	\$ 9,182,356	\$ 100,000
2002 B	2008-2029	3.00-4.27%	5,069,720	4,986,082	20,494	100,000	4,906,576	125,000
	Premiums on Issuance		-	140,655	-	7,814	132,841	-
2008 A	2013-2034	4.00-5.50%	15,730,000	15,730,000	-	-	15,730,000	25,000
	Premiums on Issuance		-	248,987	-	11,857	237,130	-
2008 B & C	2011-2040	3.00-10.51%	15,730,000	16,408,756	428,281	-	16,837,037	-
	Premiums on Issuance		-	1,006,390	-	37,274	969,116	-
			<u>\$ 45,958,923</u>	<u>\$ 47,719,750</u>	<u>\$ 507,251</u>	<u>\$ 231,945</u>	<u>\$ 47,995,056</u>	<u>\$ 250,000</u>

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

Debt Service Requirements to Maturity

Series 2002 A

Fiscal Year	Principal Including Accreted Interest to Date	Accreted Interest	Current Interest to Maturity	Total
2013	\$ 100,000	\$ 49,346	\$ 380,661	\$ 530,007
2014	150,000	52,995	376,193	579,188
2015	191,412	44,918	373,474	609,804
2016	237,094	28,177	373,474	638,745
2017	238,850	7,208	373,474	619,532
2018-2022	2,355,000	-	1,662,540	4,017,540
2023-2027	4,620,000	-	930,363	5,550,363
2028	1,290,000	-	32,250	1,322,250
Total	<u>\$ 9,182,356</u>	<u>\$ 182,644</u>	<u>\$ 4,502,429</u>	<u>\$ 13,867,429</u>

Series 2002 B

Fiscal Year	Principal Including Accreted Interest to Date	Accreted Interest	Current Interest to Maturity	Total
2013	\$ 125,000	\$ 21,763	\$ 205,676	\$ 352,439
2014	125,000	23,110	200,989	349,099
2015	125,000	24,540	196,145	345,685
2016	125,000	26,059	191,145	342,204
2017	125,000	27,672	186,301	338,973
2018-2022	680,000	166,276	861,446	1,707,722
2023-2027	1,210,000	224,516	653,513	2,088,029
2028-2030	2,391,576	134,488	153,188	2,679,252
Total	<u>\$ 4,906,576</u>	<u>\$ 648,424</u>	<u>\$ 2,648,403</u>	<u>\$ 8,203,403</u>

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

Series 2008 A

Fiscal Year	Principal	Current Interest to Maturity	Total
2013	\$ 25,000	\$ 849,400	\$ 874,400
2014	75,000	847,400	922,400
2015	100,000	843,900	943,900
2016	150,000	838,713	988,713
2017	200,000	831,025	1,031,025
2018-2022	1,800,000	3,927,000	5,727,000
2023-2027	3,630,000	3,222,962	6,852,962
2028-2032	6,250,000	1,890,625	8,140,625
2033-2034	3,500,000	196,625	3,696,625
Total	\$ 15,730,000	\$ 13,447,650	\$ 29,177,650

Series 2008 B and C

Fiscal Year	Principal Including Accreted Interest to Date	Accreted Interest	Current Interest to Maturity	Total
2013		\$ 462,662	\$ 534,281	\$ 996,943
2014		499,902	534,281	1,034,183
2015	100,000	540,250	532,781	1,173,031
2016	125,000	583,974	529,250	1,238,224
2017	175,000	631,368	524,266	1,330,634
2018-2022	1,900,000	4,020,262	2,442,031	8,362,293
2023-2027	4,225,000	5,978,298	1,758,938	11,962,236
2028-2032	4,956,328	8,600,799	364,219	13,921,346
2033-2037	3,089,241	6,983,373	-	10,072,614
2038-2040	2,266,468	1,362,075	-	3,628,543
Total	\$ 16,837,037	\$ 29,662,963	\$ 7,220,047	\$ 53,720,047

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

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, 2012, the principal balance outstanding was \$5,950,000.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 345,000	\$ 239,978	\$ 584,978
2014	355,000	227,728	582,728
2015	370,000	214,809	584,809
2016	375,000	201,071	576,071
2017	390,000	186,484	576,484
2018-2022	2,220,000	672,840	2,892,840
2023-2026	1,895,000	160,679	2,055,679
Total	<u>\$ 5,950,000</u>	<u>\$ 1,903,589</u>	<u>\$ 7,853,589</u>

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2012, amounted to \$162,075.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

Capital Leases

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

	OME Portables
Balance, June 30, 2011	\$ 28,800
Payments	14,400
Balance, June 30, 2012	<u>\$ 14,400</u>

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
<u>2013</u>	<u>\$ 14,400</u>
Less: Amount Representing Interest	-
Present Value of Minimum Lease Payments	<u>\$ 14,400</u>

Other Postemployment Benefits (OPEB) Asset

The District's annual required contribution for the year ended June 30, 2012, was \$70,699, and contributions made by the District during the year were \$74,347. Interest on the net OPEB asset and adjustments to the annual required contribution were \$(499) and \$650, respectively, which resulted in an increase to the net OPEB asset of \$3,497. As of June 30, 2012, the net OPEB asset was \$13,484. See Note 12 for additional information regarding the OPEB asset and the postemployment benefits plan.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

NOTE 9 - NON OBLIGATORY DEBT

Community Facilities Districts (CFDs)

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

	Balance End of Year
Public Finance Authority	\$ 32,155,000
Special Tax Refunding Bonds	
CFD 94-1	10,740,000
CFD 99-1 Zone 1	4,655,000
CFD 99-1 Zone 2	5,200,000
CFD 99-1 Improvement Area A	925,000
CFD 2002-1	4,855,000
CFD 2002-3	3,950,000
CFD 2003-3	2,510,000
Special Tax Bonds	
CFD 2002-2	7,390,000
CFD 2002-4	2,125,000
CFD 2002-5	5,475,000
CFD 2003-1	2,060,000
CFD 2003-2	10,280,000
CFD 2003-4	2,340,000
CFD 2004-2	4,140,000
CFD 2004-3	3,705,000
CFD 2004-4	2,235,000
CFD 2004-5	4,235,000
CFD 2005-2	4,410,000
CFD 2006-3	1,930,000
Total	<u>\$ 115,315,000</u>

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 10 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Capital Facilities Fund	Capital Project Fund for Blended Component Units
	<u> </u>	<u> </u>	<u> </u>
Nonspendable			
Revolving cash	\$ 5,000	\$ -	\$ -
Stores inventories	-	-	-
Total Nonspendable	<u>5,000</u>	<u>-</u>	<u>-</u>
Restricted			
Legally restricted programs	1,574,955	-	-
Capital projects	-	27,564,531	7,477,257
Debt services	-	-	-
Total Restricted	<u>1,574,955</u>	<u>27,564,531</u>	<u>7,477,257</u>
Assigned			
Curriculum adoption	180,000	-	-
Equipment replacement	500,000	-	-
Deferred maintenance tier III flexibility	1,075,690	-	-
Instructional materials tier III flexibility	760,849	-	-
Technology	38,746	-	-
Step and column	600,000	-	-
New school start-up	900,000	-	-
MAA minimum fund balance	290,570	-	-
Total Assigned	<u>4,345,855</u>	<u>-</u>	<u>-</u>
Unassigned			
Economic uncertainties	6,341,900	-	-
Total	<u>\$ 12,267,710</u>	<u>\$ 27,564,531</u>	<u>\$ 7,477,257</u>

Non-Major Governmental Funds	Total
\$ -	\$ 5,000
19,565	19,565
<u>19,565</u>	<u>24,565</u>
1,219,750	2,794,705
3,643,487	38,685,275
2,328,971	2,328,971
<u>7,192,208</u>	<u>43,808,951</u>
-	180,000
-	500,000
-	1,075,690
-	760,849
-	38,746
-	600,000
-	900,000
-	290,570
<u>-</u>	<u>4,345,855</u>
-	6,341,900
<u>\$ 7,211,773</u>	<u>\$ 54,521,271</u>

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 11 - EXPENDITURES (BUDGET VERSUS ACTUAL)

At June 30, 2012, the following District major fund exceeded the budgeted amount in total as follows:

	Expenditures and Other Uses		
	Budget	Actual	Excess
General Fund	<u>\$ 60,019,227</u>	<u>\$ 60,756,633</u>	<u>\$ 737,406</u>

NOTE 12 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description

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 two of these retirees and their dependents; the other retiree and dependent is subject to the District's cap on health and welfare contributions. Education Code requires the District to make a health package available to certificated retirees. The District offers the opportunity for classified retirees to purchase this plan as well even though not required to do so by California law. The District does not contribute any funds toward these retiree health plans and those retirees which choose the plan are required to pay all premium costs associated with the plan.

Contribution Information

Expenditures for postemployment benefits are recognized on a pay-as-you-go basis, as premiums are paid. For fiscal year 2011-2012, the District contributed \$74,347, of which \$32,760 was used for current premiums and \$41,587 was contributed by the District as an implicit rate subsidy to current retirees.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

Annual OPEB Cost and Net OPEB Asset

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB asset:

Annual required contribution	\$ 70,699
Interest on net OPEB obligation	(499)
Adjustment to annual required contribution	650
Annual OPEB cost (expense)	<u>70,850</u>
Contributions made	<u>(74,347)</u>
Increase in net OPEB asset	(3,497)
Net OPEB asset, beginning of year	(9,987)
Net OPEB asset, end of year	<u><u>\$ (13,484)</u></u>

Trend Information

Trend information for annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB asset is as follows:

Year Ended June 30,	Annual OPEB Cost	Actual Employer Contribution	Percentage Contributed	Net OPEB Asset
2011	\$ 70,699	\$ 80,686	114.13%	\$ 9,987
2012	70,850	74,347	104.94%	13,484

Funded Status and Funding Progress

A schedule of funding progress as of the most recent actuarial valuation is as follow:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
July 1, 2009	\$ -	\$ 661,123	\$ 661,123	0%	\$ -	0%

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

NOTE 13 - RISK MANAGEMENT

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

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2012, the District contracted with Riverside Schools' Insurance Authority (RSIA) for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

Workers' Compensation

For fiscal year 2012, the District participated in the Protected Insurance Program for Schools (PIPS). The intent of the PIPS is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the PIPS. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate. Each participant pays its workers' compensation premium based on its individual rate.

NOTE 14 - EMPLOYEE RETIREMENT SYSTEM

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

CalSTRS

Plan Description

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

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Funding Policy

Active plan members are required to contribute 8.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2011-2012 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the fiscal years ending June 30, 2012, 2011, and 2010, were \$2,630,443, \$2,732,759, and \$2,673,365, respectively, and equal 100 percent of the required contributions for each year.

CalPERS

Plan Description

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

Funding Policy

Active plan members are required to contribute 7.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2011-2012 was 10.923 percent of covered payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2012, 2011, and 2010, were \$890,361, \$923,607, and \$802,864, respectively, and equal 100 percent of the required contributions for each year.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$1,579,133 (4.855 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on-behalf contribution rate for CalPERS. This amount was reported in both State revenues and Instructional Expenditures within the General Fund. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budget amounts reported in the *General Fund - Budgetary Comparison Schedule*.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

NOTE 15 - COMMITMENTS AND CONTINGENCIES

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2012.

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, 2012.

NOTE 16 - PARTICIPATION IN JOINT POWER AUTHORITIES

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

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

The District has appointed one board member to the governing board of Riverside Schools' Insurance Authority. During the year ended June 30, 2012, the District made payments of \$663,786 to Protected Insurance Program for Schools, \$333,526 to Riverside Schools' Insurance Authority and \$5,753,436 to Self Insurance Schools' of California III for insurance.

NOTE 17 - FISCAL ISSUES RELATING TO BUDGET REDUCTIONS

The State of California continues to suffer the effects of a recessionary economy. California school districts are reliant on the State of California to appropriate the funding necessary to continue the level of educational services expected by the State constituency. With the implementation of education trailer bill Senate Bill 70 (Chapter 7, Statutes of 2011), 39 percent of current year funding has now been deferred to a subsequent period, creating significant cash flow management issues for districts in addition to requiring substantial budget reductions, ultimately impacting the ability of California school districts to meet their goals for educational services.

REQUIRED SUPPLEMENTARY INFORMATION

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts		Actual (GAAP Basis)	Variances -
	Original	Final		Positive
				(Negative)
				Final to Actual
REVENUES				
Revenue limit sources	\$ 40,474,510	\$ 42,856,445	\$ 42,906,728	\$ 50,283
Federal sources	2,067,375	2,215,067	2,283,804	68,737
Other State sources	6,551,418	6,924,848	8,915,573	1,990,725
Other local sources	4,887,292	4,901,126	4,936,280	35,154
Total Revenues¹	53,980,595	56,897,486	59,042,385	2,144,899
EXPENDITURES				
Current				
Certificated salaries	31,645,488	32,015,571	31,883,362	132,209
Classified salaries	8,872,300	9,057,313	8,991,552	65,761
Employee benefits	11,777,900	11,862,628	11,627,547	235,081
Books and supplies	1,884,700	1,502,168	1,300,006	202,162
Services and operating expenditures	4,774,488	5,528,165	5,323,081	205,084
Other outgo	(6,187)	(56,053)	1,465,835	(1,521,888)
Capital outlay	-	-	56,974	(56,974)
Total Expenditures¹	58,948,689	59,909,792	60,648,357	(738,565)
Excess (Deficiency) of Revenues Over Expenditures	(4,968,094)	(3,012,306)	(1,605,972)	1,406,334
Other Financing Sources (Uses)				
Transfers in	-	38,747	163,897	(125,150)
Other sources	-	-	(783)	783
Transfers out	(42,000)	(109,435)	(108,276)	1,159
Net Financing Sources (Uses)	(42,000)	(70,688)	54,838	(123,208)
NET CHANGE IN FUND BALANCES	(5,010,094)	(3,082,994)	(1,551,134)	1,283,126
Fund Balances - Beginning	13,818,844	13,818,844	13,818,844	-
Fund Balances - Ending	\$ 8,808,750	\$ 10,735,850	\$ 12,267,710	\$ 1,283,126

¹ On behalf payments of \$1,579,133 are included in the actual revenues and expenditures, but have not been included in the budgeted amounts. In addition, due to the consolidation of Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, for reporting purposes into the General Fund, additional revenues and expenditures pertaining to these other funds are included in the Actual (GAAP Basis) revenues and expenditures, however are not included in the original and final General Fund budgets.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING
PROGRESS
FOR THE YEAR ENDED JUNE 30, 2012**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b - a) / c]
July 1, 2009	\$ -	\$ 661,123	\$ 661,123	0%	\$ -	0%

SUPPLEMENTARY INFORMATION

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through Riverside County Special Education			
Local Plan Area:			
Individuals with Disabilities Act (IDEA)			
Special Education (IDEA) Cluster:			
Basic Local Assistance Entitlement, Part B, Section 611	84.027	13379	\$ 1,410,956
Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.173	13430	49,722
Preschool Local Entitlement, Part B, Section 611 (Age 3-4-5)	84.027A	13682	111,551
Mental Health Allocation Plan, Part B, Section 611	84.027	14468	3,644
Preschool Staff Development, Part B, Section 619	84.173A	13431	463
Total Special Education (IDEA) Cluster			<u>1,576,336</u>
No Child Left Behind Act (NCLB)			
Education Jobs Fund	84.410	25152	23,486
Title II, Part A - Improving Teacher Quality Local Grants	84.367	14341	122,095
Title III Grants Cluster:			
Title III - Immigrant Education Program	84.365	15146	34,687
Title III - Limited English Proficient (LEP) Student Program	84.365	14346	153,876
Total Title III Grants Cluster			<u>188,563</u>
Total U.S. Department of Education			<u>1,910,480</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through California Department of Education:			
Child Nutrition Cluster:			
Especially Needy Breakfast	10.553	13526	244,147
National School Lunch Program	10.555	13524	1,347,256
Food Distribution	10.555	13524	180,510
Total Child Nutrition Cluster			<u>1,771,913</u>
Total U.S. Department of Agriculture			<u>1,771,913</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through California Department of Health Services:			
Medicaid Cluster:			
Medi-Cal Billing Option	93.778	10013	80,504
Medical Administrative Activities Program	93.778	10060	168,243
Total Medicaid Cluster			<u>248,747</u>
Total U.S. Department of Health and Human Services			<u>248,747</u>
Total Federal Programs			<u>\$ 3,931,140</u>

See accompanying note to supplementary information.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2012

ORGANIZATION

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

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Jerry Bowman	President	2013
Randall T. Freeman, Ed.D	Vice President	2013
Ron Ulibarri	Clerk	2013
Robert O'Donnell	Member	2015
Scott Mann	Member	2015

ADMINISTRATION

Linda C. Callaway, Ed.D.	Superintendent
Robert Wolfe	Assistant Superintendent, Business Services
Steve Kennedy	Assistant Superintendent, Personnel Services
Karen Valdes	Assistant Superintendent, Curriculum and Instruction
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, 2012**

	Final Report	
	Second Period Report	Annual Report
ELEMENTARY		
Kindergarten	886	886
First through third	2,860	2,856
Fourth through sixth	2,832	2,826
Seventh and eighth	1,779	1,788
Home and hospital	4	3
Special education	185	186
Total Elementary	<u>8,546</u>	<u>8,545</u>

See accompanying note to supplementary information.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2012**

Grade Level	1982-83	Reduced 1982-83	1986-87	Reduced 1986-87	2011-12	Number of Days		Status
	Actual Minutes	Actual Minutes	Minutes Requirement	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Kindergarten	31,500	29,400	36,000	33,600	38,700	180	N/A	Complied
Grades 1 - 3	50,750	47,367	50,400	47,040				
Grade 1					53,248	180	N/A	Complied
Grade 2					53,248	180	N/A	Complied
Grade 3					55,008	180	N/A	Complied
Grades 4 - 6	50,750	47,367	54,000	50,400				
Grade 4					55,008	180	N/A	Complied
Grade 5					55,008	180	N/A	Complied
Grade 6					57,314	180	N/A	Complied
Grades 7 - 8	50,750	47,367	54,000	50,400				
Grade 7					57,314	180	N/A	Complied
Grade 8					57,314	180	N/A	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, 2012**

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2012.

See accompanying note to supplementary information.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012**

	(Budget)			
	2013 ¹	2012	2011	2010
GENERAL FUND				
Revenues	\$ 53,895,359	\$ 59,042,385	\$ 61,860,320	\$ 57,972,931
Other sources	35,719	163,114	-	283,943
Total Revenues and Other Sources	<u>53,931,078</u>	<u>59,205,499</u>	<u>61,860,320</u>	<u>58,256,874</u>
Expenditures	61,317,356	60,648,357	59,056,511	60,491,335
Other uses and transfers out	185,532	108,276	35,052	-
Total Expenditures and Other Uses	<u>61,502,888</u>	<u>60,756,633</u>	<u>59,091,563</u>	<u>60,491,335</u>
INCREASE (DECREASE) IN FUND BALANCE	<u>\$ (7,571,810)</u>	<u>\$ (1,551,134)</u>	<u>\$ 2,768,757</u>	<u>\$ (2,234,461)</u>
ENDING FUND BALANCE	<u>\$ 4,695,900</u>	<u>\$ 12,267,710</u>	<u>\$ 13,818,844</u>	<u>\$ 11,050,087</u>
AVAILABLE RESERVES²	<u>\$ 1,345,306</u>	<u>\$ 6,341,900</u>	<u>\$ 9,199,102</u>	<u>\$ 1,773,259</u>
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO³	<u>2.19%</u>	<u>10.72%</u>	<u>15.95%</u>	<u>3.00%</u>
LONG-TERM OBLIGATIONS	<u>N/A</u>	<u>\$ 54,108,047</u>	<u>\$ 54,178,383</u>	<u>\$ 54,266,383</u>
K-12 AVERAGE DAILY ATTENDANCE AT P-2	<u>8,599</u>	<u>8,546</u>	<u>8,522</u>	<u>8,496</u>

The General Fund balance has increased by \$1,217,623 over the past two years. The fiscal year 2012-2013 budget projects a decrease of \$7,571,810 (61.72 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 deficit in two of the past three years and anticipates incurring an operating deficit during the 2012-2013 fiscal year. Total long-term obligations have decreased by \$158,336 over the past two years.

Average daily attendance has increased by 50 over the past two years. Additional growth of 53 ADA is anticipated during fiscal year 2012-2013.

¹ Budget 2013 is included for analytical purposes only and has not been subjected to audit.

² Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainty contained within the General Fund.

³ On behalf payments of \$1,579,133, \$1,413,416, and \$1,382,695 have been excluded from the calculation of available reserves for the fiscal years ending June 30, 2012, 2011, and 2010.

See accompanying note to supplementary information.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2012**

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

See accompanying note to supplementary information.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2012**

	Child Development Fund	Cafeteria Fund	Building Fund
ASSETS			
Deposits and investments	\$ 1,055	\$ 967,076	\$ 3,992,327
Receivables	23	280,219	4,676
Due from other funds	1,172	-	-
Stores inventories	-	19,565	-
Total Assets	\$ 2,250	\$ 1,266,860	\$ 3,997,003
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 190	\$ 19,725	\$ 353,516
Due to other funds	2,060	7,820	-
Total Liabilities	2,250	27,545	353,516
Fund Balances:			
Nonspendable	-	19,565	-
Restricted	-	1,219,750	3,643,487
Total Fund Balances	-	1,239,315	3,643,487
Total Liabilities and Fund Balances	\$ 2,250	\$ 1,266,860	\$ 3,997,003

See accompanying note to supplementary information.

Bond Interest and Redemption Fund	COP Debt Service Fund	Total Non-Major Governmental Funds
\$ 1,736,730	\$ 592,241	\$ 7,289,429
-	-	284,918
-	-	1,172
-	-	19,565
<u>\$ 1,736,730</u>	<u>\$ 592,241</u>	<u>\$ 7,595,084</u>
-	-	-
-	-	373,431
-	-	9,880
<u>-</u>	<u>-</u>	<u>383,311</u>
-	-	19,565
<u>1,736,730</u>	<u>592,241</u>	<u>7,192,208</u>
<u>1,736,730</u>	<u>592,241</u>	<u>7,211,773</u>
<u>\$ 1,736,730</u>	<u>\$ 592,241</u>	<u>\$ 7,595,084</u>

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2012**

	Child Development Fund	Cafeteria Fund	Building Fund
REVENUES			
Federal sources	\$ -	\$ 1,771,913	\$ -
Other State sources	305,979	134,614	-
Other local sources	250	838,535	36,820
Total Revenues	306,229	2,745,062	36,820
EXPENDITURES			
Current			
Instruction	194,388	-	-
Instruction-related activities:			
Supervision of instruction	91,652	-	-
School site administration	1,222	-	-
Pupil services:			
Food services	-	2,365,783	-
All other pupil services	24,008	-	-
General administration:			
All other general administration	24,731	104,942	-
Plant services	22,939	31,500	-
Facility acquisition and construction	-	-	6,524,463
Debt service			
Principal	-	-	-
Interest and other	-	-	-
Total Expenditures	358,940	2,502,225	6,524,463
Excess (Deficiency) of Revenues Over Expenditures	(52,711)	242,837	(6,487,643)
Other Financing Sources			
Transfers in	34,607	-	-
Net Financing Sources	34,607	-	-
NET CHANGE IN FUND BALANCES	(18,104)	242,837	(6,487,643)
Fund Balances - Beginning	18,104	996,478	10,131,130
Fund Balances - Ending	\$ -	\$ 1,239,315	\$ 3,643,487

See accompanying note to supplementary information.

Bond Interest and Redemption Fund	COP Debt Service Fund	Total Non-Major Governmental Funds
\$ -	\$ -	\$ 1,771,913
36,802	-	477,395
2,112,813	26,740	3,015,158
<u>2,149,615</u>	<u>26,740</u>	<u>5,264,466</u>
-	-	194,388
-	-	91,652
-	-	1,222
-	-	2,365,783
-	-	24,008
-	-	129,673
-	-	54,439
-	-	6,524,463
175,000	330,000	505,000
1,977,488	251,790	2,229,278
<u>2,152,488</u>	<u>581,790</u>	<u>12,119,906</u>
<u>(2,873)</u>	<u>(555,050)</u>	<u>(6,855,440)</u>
-	555,051	589,658
-	555,051	589,658
<u>(2,873)</u>	<u>1</u>	<u>(6,265,782)</u>
1,739,603	592,240	13,477,555
<u>\$ 1,736,730</u>	<u>\$ 592,241</u>	<u>\$ 7,211,773</u>

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2012

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

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

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts consist primarily of Medi-Cal Administrative Activities Program funds that in the previous period were recorded as revenues but were unspent. These unspent balances have been expended in the current period. In addition, Medi-Cal Billing Option funds have been recorded in the current period as revenues that have not been expended as of June 30, 2012. These unspent balances are reported as legally restricted ending balances within the General Fund.

Description	CFDA Number	Amount
Total Federal Revenues Statement of Revenues, Expenditures and Changes in Fund Balance:		\$ 4,055,717
Medi-Cal Billing Option	93.778	(135,113)
Medi-Cal Administrative Activities Program	93.778	10,536
Total Schedule of Expenditures of Federal Awards		<u>\$ 3,931,140</u>

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

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

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2012

Reconciliation of Annual Financial and Budget Report With Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

Schedule of Charter Schools

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

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

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

INDEPENDENT AUDITORS' REPORTS



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

Governing Board
Menifee Union Elementary School District
Menifee, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Menifee Union Elementary School District as of and for the year ended June 30, 2012, which collectively comprise Menifee Union Elementary School District's basic financial statements and have issued our report thereon dated October 8, 2012. 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.

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

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

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

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California
October 8, 2012



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

Governing Board
Menifee Union Elementary School District
Menifee, California

Compliance

We have audited Menifee Union Elementary School District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Menifee Union Elementary School District's major Federal programs for the year ended June 30, 2012. Menifee Union Elementary School District's major Federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of Menifee Union Elementary School District's management. Our responsibility is to express an opinion on Menifee Union Elementary School District's compliance based on our audit.

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

In our opinion, Menifee Union Elementary School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

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

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

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

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

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California
October 8, 2012



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Governing Board
 Menifee Union Elementary School District
 Menifee, California

We have audited Menifee Union Elementary School District's compliance with the requirements as identified in the *Standards and Procedures for Audit of California K-12 Local Educational Agencies*, applicable to Menifee Union Elementary School District's government programs as noted below for the year ended June 30, 2012. Compliance with the requirements referred to above 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 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 2011-2012* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about Menifee Union 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 opinions. Our audit does not provide a legal determination of Menifee Union Elementary School District's compliance with those requirements.

In our opinion, Menifee Union Elementary School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2012.

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	6	Yes
Teacher Certification and Misassignments	3	Yes
Kindergarten continuance	3	Yes
Independent study	23	Not Applicable
Continuation education	10	Not Applicable

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Instructional Time:		
School districts	6	Yes
County offices of education	3	Not Applicable
Instructional Materials:		
General requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	Not Applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Public Hearing Requirement - Receipt of Funds	1	Yes
Juvenile Court Schools	8	Not Applicable
Exclusion of Pupils - Pertussis Immunization	2	Yes
Class Size Reduction Program (including in charter schools):		
General requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	Not Applicable
Districts or charter schools with only one school serving K-3	4	Not Applicable
After School Education and Safety Program:		
General requirements	4	Not Applicable
After school	5	Not Applicable
Before school	6	Not Applicable
Charter Schools:		
Contemporaneous records of attendance	3	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	4	Not Applicable

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

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California
October 8, 2012

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2012**

FINANCIAL STATEMENTS

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

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>10.553, 10.555</u>	<u>Child Nutrition Cluster</u>
<u>93.778</u>	<u>Medicaid Cluster</u>

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

STATE AWARDS

Type of auditors' report issued on compliance for programs:	<u>Unqualified</u>
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MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012**

None reported.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

None reported.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

None reported.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012**

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