



**MENIFEE UNION
SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2017

MENIFEE UNION SCHOOL DISTRICT

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FINANCIAL SECTION



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

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Menifee Union School District
Menifee, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Menifee Union School District (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2016-2017 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and the aggregate remaining fund information of the Menifee Union School District, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 17 to the financial statements, the beginning net position of the government-wide financial statements was restated due to a restatement of certain long term obligations. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 13, budgetary comparison schedule on page 69, schedule of other postemployment benefits funding progress on page 70, schedule of the district's proportionate share of net pension liability on page 71, and the schedule of district contributions on page 72, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2017, on our consideration of the Menifee Union School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Menifee Union School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Menifee Union School District's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California
December 8, 2017



MENIFEE UNION SCHOOL DISTRICT

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Superintendent
Steve Kennedy Ed.D.

This section of Menifee Union School District's (the District) (audited) annual financial report presents our discussion and analysis of the Menifee Union School District's financial performance during the fiscal year that ended on June 30, 2017, with comparative information from 2016. Please read it in conjunction with the District's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

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

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

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

The *Governmental 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 School District.

MENIFEE UNION SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2017

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Position and the Statement of Activities

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

These two statements report the District's *net position* and changes in them. Net position is the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources, which is one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net position will serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

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

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

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

MENIFEE UNION SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2017

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

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

THE DISTRICT AS TRUSTEE

Reporting the District's Fiduciary Responsibilities

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

MENIFEE UNION SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2017

THE DISTRICT AS A WHOLE

Net Position

The District's net position was \$147,083,065 for the fiscal year ended June 30, 2017. Of this amount, (\$59,415,281) was unrestricted deficit. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the governing school board's ability to use net position for day-to-day operations. Our analysis below focuses on the net position (Table 1) and change in net position (Table 2) of the District's governmental activities.

Table 1

	Governmental Activities	
	2017	2016 as restated
ASSETS		
Current and other assets	\$ 61,174,826	\$ 46,602,062
Capital assets	262,105,788	249,978,702
Total Assets	323,280,614	296,580,764
Deferred Outflows of Resources	21,422,048	17,227,987
LIABILITIES		
Current liabilities	5,564,211	4,654,321
Long-term obligations	105,101,731	78,753,690
Aggregate net pension liability	84,789,164	67,330,837
Total Liabilities	195,455,106	150,738,848
Deferred Inflows of Resources	2,164,491	12,944,747
NET POSITION		
Net investment in capital assets	188,952,162	192,455,132
Restricted	17,546,184	15,484,604
Unrestricted (deficit)	(59,415,281)	(57,814,580)
Total Net Position	\$ 147,083,065	\$ 150,125,156

MENIFEE UNION SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2017

Change in Net Position

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

Table 2

	Governmental Activities	
	2017	2016
Revenues		
Program revenues:		
Charges for services	\$ 1,813,505	\$ 1,219,255
Operating grants and contributions	14,810,548	13,508,719
General revenues:		
State revenue limit sources	68,619,078	65,905,524
Property and other taxes	15,175,080	13,553,593
Other general revenues	9,850,745	16,992,731
Total Revenues	<u>110,268,956</u>	<u>111,179,822</u>
Expenses		
Instruction-related	80,654,060	72,110,786
Pupil services	10,394,579	8,482,248
Administration	5,740,920	5,435,478
Plant services	10,298,622	9,449,097
Other	6,222,866	5,089,735
Total Expenses	<u>113,311,047</u>	<u>100,567,344</u>
Change in Net Position	<u>\$ (3,042,091)</u>	<u>\$ 10,612,478</u>

Governmental Activities

As reported in the *Statement of Activities* on page 15 the cost of all of our governmental activities this year was \$113,311,047. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$15,175,080 because the cost was paid by those who benefited from the programs \$1,813,505 or by other governments and organizations who subsidized certain programs with grants and contributions \$14,810,548. We paid for the remaining "public benefit" portion of our governmental activities with \$78,469,823 in State funds, and with other revenues, like interest and general entitlements.

MENIFEE UNION SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2017

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, 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	
	2017	2016
Instruction	\$ 60,464,017	\$ 55,211,322
Instruction-related activities	9,972,348	7,663,285
Other pupil services	6,153,605	4,508,580
General administration	5,117,955	4,843,168
Plant services	10,254,714	9,393,867
Other	4,724,355	4,219,148
Total	\$ 96,686,994	\$ 85,839,370

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$56,332,902 as detailed below:

Table 4

	Fund Balance at June 30,	
	2017	2016
General Fund	\$ 9,433,421	\$ 11,116,818
Building Fund	20,316,959	-
Capital Facilities Fund	10,362,123	13,174,813
Capital Project Fund for Blended Component Units	9,733,163	14,993,807
Non-Major Governmental Funds	6,487,236	3,489,207
Total	\$ 56,332,902	\$ 42,774,645

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 2017. (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 69.)

MENIFEE UNION SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2017

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2017, the District had \$262 million in a broad range of capital assets, including land, buildings, and equipment.

Table 5

(Net of Accumulated Depreciation)

	Governmental Activities	
	2017	2016
Land and construction in process	\$ 47,848,913	\$ 105,813,329
Buildings and improvements/site improvements	213,626,724	143,629,181
Equipment	630,151	536,192
Total	\$ 262,105,788	\$ 249,978,702

MENIFEE UNION SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2017

Long-Term Obligations

At the end of this year, the District had \$105 million in long-term obligations outstanding versus \$76.4 million last year. Those long-term obligations consisted of the following:

Table 6

	Governmental Activities	
	2017	2016
General obligation bonds (Net of Premiums and Discounts)	\$ 77,448,084	\$ 48,982,200
Certificates of participation and QZAB	25,755,664	27,312,753
Accumulated vacation	270,551	222,717
Developer Fee Agreement	2,029,922	-
Net OPEB asset	(402,490)	(160,603)
Total	\$ 105,101,731	\$ 76,357,067

The District's general obligation bond rating with Fitch is A+, and with S&P it is an AA-. The State limits the amount of general obligation bonds that districts can issue to five percent of the assessed value of all taxable property within the District's boundaries. The District's outstanding general obligation bonds of \$77.0 million are below this statutorily imposed limit.

Net Pension Liability (NPL)

As of June 30, 2017, the District's net pension liability is \$84.8 million.

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2016-2017

- The financial plan of the District continues to successfully support and implement the District's instructional mission, goals and plan.
- The District identified Collective Commitments in order to prioritize fiscal and human resources.
- The District continues to seek to improve support services that offer cost savings.

MENIFEE UNION SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2017

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- Numerous developers are increasing home permits within the District boundaries. The District anticipates enrollment will grow at an increased rate consistent with housing construction in the area. The District anticipates enrollment growth of 157 students for 2017-2018.
- In November 2016, voters approved G.O. Bond in the amount of \$135,000,000 to build two new elementary schools; one middle school and complete renovations of other school sites over the next seven years.
- On-site solar energy generation carports, ground mounts and roof systems have been installed District-wide and are reflecting a decrease in energy costs.
- The State has radically altered the historical funding method for public education. This new model, Local Control Funding Formula (LCFF) will continue to increase GAP funding. It appears that moving forward the District will continue to receive GAP funding in 2017-2018.
- Staffing issues and financial planning will continue to be very conservative during the multi-year 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 Ambur Borth, Assistant Superintendent, Business Services, Menifee Union School District, 30205 Menifee Road, Menifee, California 92584, or email at business@menifeeusd.org.

MENIFEE UNION SCHOOL DISTRICT

STATEMENT OF NET POSITION JUNE 30, 2017

	Governmental Activities
ASSETS	
Deposits and investments	\$ 58,821,781
Receivables	2,305,742
Stores inventories	47,303
Capital Assets:	
Land and construction in process	47,848,913
Other capital assets	279,487,671
Less: Accumulated depreciation	(65,230,796)
Total Capital Assets	<u>262,105,788</u>
Total Assets	<u><u>323,280,614</u></u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources related to pensions	<u>21,422,048</u>
LIABILITIES	
Accounts payable	4,768,664
Interest payable	722,287
Unearned revenue	73,260
Long-Term Obligations	
Current portion of long-term obligations other than pensions	3,214,598
Noncurrent portion of long-term obligations other than pensions	101,887,133
Total Long-Term obligation	<u>105,101,731</u>
Aggregate net pension liability	<u>84,789,164</u>
Total Liabilities	<u><u>195,455,106</u></u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	<u>2,164,491</u>
NET POSITION	
Net investment in capital assets	188,952,162
Restricted for:	
Debt service	4,344,935
Capital projects	10,492,123
Educational programs	1,372,710
Other activities	1,336,416
Unrestricted	(59,415,281)
Total Net Position	<u><u>\$ 147,083,065</u></u>

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

MENIFEE UNION SCHOOL DISTRICT

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017**

Functions/Programs	Expenses	Program Revenues		Net (Expenses)
		Charges for Services and Sales	Operating Grants and Contributions	Revenues and Changes in Net Position
				Governmental Activities
Governmental Activities:				
Instruction	\$ 68,483,816	\$ -	\$ 8,019,799	\$ (60,464,017)
Instruction-related activities:				
Supervision of instruction	5,341,985	-	2,019,684	(3,322,301)
Instructional library, media, and technology	960,231	-	66	(960,165)
School site administration	5,868,028	-	178,146	(5,689,882)
Pupil services:				
Home-to-school transportation	2,330,467	-	-	(2,330,467)
Food services	3,047,861	882,191	2,105,272	(60,398)
All other pupil services	5,016,251	-	1,253,511	(3,762,740)
General administration:				
Data processing	1,255,464	-	10,233	(1,245,231)
All other general administration	4,485,456	73,077	539,655	(3,872,724)
Plant services	10,298,622	36,888	7,020	(10,254,714)
Community services	95,270	-	-	(95,270)
Interest on long-term obligations	5,545,042	821,349	677,162	(4,046,531)
Other outgo	582,554	-	-	(582,554)
Total Governmental Activities	\$ 113,311,047	\$ 1,813,505	\$ 14,810,548	(96,686,994)
General Revenues and Subventions:				
				11,897,651
				2,971,046
				306,383
				68,619,078
				54,325
				130,000
				9,666,420
				93,644,903
				Change in Net Assets
				(3,042,091)
				Net Position - Beginning
				152,521,779
				Prior Period Adjustment
				(2,396,623)
				Net Position - Beginning, as restated
				150,125,156
				Net Position - Ending
				\$ 147,083,065

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

MENIFEE UNION SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2017**

	General Fund	Building Fund	Capital Facilities Fund
ASSETS			
Deposits and investments	\$ 9,536,949	\$ 23,073,025	\$ 10,193,823
Receivables	1,726,034	-	212,951
Due from other funds	217,213	-	-
Stores inventories	-	-	-
Total Assets	<u>\$ 11,480,196</u>	<u>\$ 23,073,025</u>	<u>\$ 10,406,774</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 1,986,297	\$ 2,756,066	\$ 5,624
Due to other funds	-	-	39,027
Unearned revenue	60,478	-	-
Total Liabilities	<u>2,046,775</u>	<u>2,756,066</u>	<u>44,651</u>
Fund Balances:			
Nonspendable	5,000	-	-
Restricted	1,336,416	20,316,959	10,362,123
Assigned	5,241,622	-	-
Unassigned	2,850,383	-	-
Total Fund Balances	<u>9,433,421</u>	<u>20,316,959</u>	<u>10,362,123</u>
Total Liabilities and Fund Balances	<u>\$ 11,480,196</u>	<u>\$ 23,073,025</u>	<u>\$ 10,406,774</u>

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

Capital Project Fund for Blended Component Units	Non-Major Governmental Funds	Total Governmental Funds
\$ 9,863,163	\$ 6,154,821	\$ 58,821,781
-	366,757	2,305,742
-	-	217,213
-	47,303	47,303
<u>\$ 9,863,163</u>	<u>\$ 6,568,881</u>	<u>\$ 61,392,039</u>

\$ -	\$ 20,677	\$ 4,768,664
130,000	48,186	217,213
-	12,782	73,260
<u>130,000</u>	<u>81,645</u>	<u>5,059,137</u>

-	47,304	52,304
9,733,163	6,439,932	48,188,593
-	-	5,241,622
-	-	2,850,383
<u>9,733,163</u>	<u>6,487,236</u>	<u>56,332,902</u>
<u>\$ 9,863,163</u>	<u>\$ 6,568,881</u>	<u>\$ 61,392,039</u>

MENIFEE UNION SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION JUNE 30, 2017

Total Fund Balance - Governmental Funds	\$ 56,332,902
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.	
The cost of capital assets is	\$ 327,336,584
Accumulated depreciation is	<u>(65,230,796)</u>
Net Capital Assets	262,105,788
Expenditures relating to contributions made to pension plans were recognized on the modified accrual basis, but are not recognized on the accrual basis.	7,379,889
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.	(722,287)
The net change in proportionate share of net pension liability as of the measurement date is not recognized as an expenditure under the modified accrual basis, but is recognized on the accrual basis over the expected average remaining service life of members receiving pension benefits.	5,281,768
The difference between projected and actual earnings on pension plan investments are not recognized on the modified accrual basis, but are recognized on the accrual basis as an adjustment to pension expense.	8,028,442
The differences between expected and actual experience in the measurement of the total pension liability are not recognized on the modified accrual basis, but are recognized on the accrual basis over the expected average remaining service life of members receiving pension benefits.	(921,244)
The changes of assumptions is not recognized as an expenditure under the modified accrual basis, but is recognized on the accrual basis over the expected average remaining service life of members receiving pension benefits.	(511,298)

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

MENIFEE UNION SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION (CONTINUED) JUNE 30, 2017

Net pension liability is not due and payable in the current period,
and is not reported as a liability in the funds. \$ (84,789,164)

Long-term obligations, including general obligation bonds, are not due
and payable in the current period and, therefore, are not reported as
obligations in the funds.

Long-term obligations at year-end consist of:

Bonds payable	\$ 71,799,912	
Premium on issuance	5,745,633	
Certificates of participation	3,534,958	
Discount on issuance	(97,461)	
QZAB	22,220,706	
Compensated absences (vacations)	270,551	
Net OPEB asset	(402,490)	
Developer fee agreement	2,029,922	
Total Long-Term Obligations		(105,101,731)
Total Net Position - Governmental Activities		\$ 147,083,065

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

MENIFEE UNION SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2017**

	General Fund	Building Fund	Capital Facilities Fund
REVENUES			
Local Control Funding Formula	\$ 76,758,257	\$ -	\$ -
Federal sources	3,283,935	-	-
Other State sources	8,552,746	-	-
Other local sources	4,435,437	-	3,952,137
Total Revenues	93,030,375	-	3,952,137
EXPENDITURES			
Current			
Instruction	59,935,846	-	-
Instruction-related activities:			
Supervision of instruction	5,002,059	-	-
Instructional library, media, and technology	940,820	-	-
School site administration	5,675,496	-	-
Pupil services:			
Home-to-school transportation	2,148,643	-	-
Food services	-	-	-
All other pupil services	4,861,317	-	-
General administration:			
Data processing	1,245,503	-	-
All other general administration	4,282,311	-	104,864
Plant services	9,309,570	-	-
Facility acquisition and construction	15,810	2,756,066	5,755,438
Community services	95,159	-	-
Other outgo	180,090	-	-
Debt service			
Principal	1,178,647	-	745,143
Interest and other	136,517	-	120,355
Total Expenditures	95,007,788	2,756,066	6,725,800
Excess (Deficiency) of Revenues Over Expenditures	(1,977,413)	(2,756,066)	(2,773,663)
Other Financing Sources (Uses)			
Transfers in	299,027	-	-
Other sources	-	23,073,025	-
Transfers out	(5,011)	-	(39,027)
Other uses	-	-	-
Net Financing Sources (Uses)	294,016	23,073,025	(39,027)
NET CHANGE IN FUND BALANCES	(1,683,397)	20,316,959	(2,812,690)
Fund Balances - Beginning as restated	11,116,818	-	13,174,813
Fund Balances - Ending	\$ 9,433,421	\$ 20,316,959	\$ 10,362,123

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

Capital Project Fund for Blended Component Units	Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 76,758,257
-	2,050,857	5,334,792
-	860,291	9,413,037
4,738,223	3,880,629	17,006,426
<u>4,738,223</u>	<u>6,791,777</u>	<u>108,512,512</u>
-	421,832	60,357,678
-	-	-
-	156,039	5,158,098
-	-	940,820
-	-	5,675,496
-	-	-
-	-	2,148,643
-	3,022,075	3,022,075
-	15,152	4,876,469
-	-	-
-	-	1,245,503
-	179,146	4,566,321
-	4,587	9,314,157
10,545,711	-	19,073,025
-	-	95,159
402,464	-	582,554
-	-	-
-	24,854,920	26,778,710
-	4,982,234	5,239,106
<u>10,948,175</u>	<u>33,635,985</u>	<u>149,073,814</u>
<u>(6,209,952)</u>	<u>(26,844,208)</u>	<u>(40,561,302)</u>
-	5,011	304,038
1,209,308	29,837,226	54,119,559
(260,000)	-	(304,038)
-	-	-
<u>949,308</u>	<u>29,842,237</u>	<u>54,119,559</u>
<u>(5,260,644)</u>	<u>2,998,029</u>	<u>13,558,257</u>
<u>14,993,807</u>	<u>3,489,207</u>	<u>42,774,645</u>
<u>\$ 9,733,163</u>	<u>\$ 6,487,236</u>	<u>\$ 56,332,902</u>

MENIFEE UNION 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, 2017

Total Net Change in Fund Balances - Governmental Funds **\$ 13,558,257**

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

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

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

Capital outlays	\$ 18,174,415	
Depreciation expense	<u>(6,047,329)</u>	
Net Expense Adjustment		12,127,086

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 obligation were more than the ARC by \$241,887.

241,887

In the Statement of Activities, certain operating expenses - compensated absences (vacations) and special termination benefits (early retirement) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, vacation used was less than amounts earned by \$47,834.

(47,834)

In the governmental funds, pension costs are based on employer contributions made to pension plans during the year. However, in the Statement of Activities, pension expense is the net effect of all changes in the deferred inflows and net pension liability during the year.

(2,484,010)

Proceeds received from issuance of debt is a revenue in the governmental funds, but it increases long-term obligations in the Statement of Net Position and does not affect the Statement of Activities:

Sale of general obligation bonds		(48,405,000)
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Governmental funds report the effect of premiums, discounts, issuance costs, and the deferred amount on a refunding when the debt is first issued, whereas the amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these related items:

Premium on issuance		(4,505,251)
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The accompanying notes are an integral part of these financial statements.

MENIFEE UNION 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, 2017

Payment of bond principal on long-term obligations is an expenditure in the governmental funds, but it reduces long-term obligations in the Statement of Net Position and does not affect the Statement of Activities:

General obligation bonds	\$ 25,055,000	
Certificates of participation	378,442	
Developer Fee Agreement	366,701	
QZAB	<u>1,178,647</u>	
Combined Adjustment		\$ 26,978,790

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	66,444	
Amortization of debt discount	<u>(10,829)</u>	
Combined Adjustment		55,615

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 \$104,617, and second, \$666,248 of additional accumulated interest was accreted on the District's "capital appreciation" general obligation bonds.

Change in Net Position of Governmental Activities	<u>(561,631)</u>
	<u>\$ (3,042,091)</u>

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

MENIFEE UNION SCHOOL DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2017**

	Agency Funds		
	Debt Service Special Tax Bonds	Associated Student Body Funds	Total Agency Funds
ASSETS			
Deposits and investments	\$ 11,963,453	\$ 151,590	\$ 12,115,043
LIABILITIES			
Due to student groups	\$ -	\$ 151,590	\$ 151,590
Due to bond holders	11,963,453	-	11,963,453
Total Liabilities	\$ 11,963,453	\$ 151,590	\$ 12,115,043

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

MENIFEE UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

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

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

Component Units

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

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

Pursuant to the Mello-Roos Community Facilities Act of 1982, the District established Community Facilities Districts (CFDs) 94-1, 99-1 Zone 1, 2, Improvement Zone A, 2002-1 through 3, 2003-3, and 2004-6, 2006-1, 2006-2, 2006-3, 2011-1 Area 1, 2, and 2014-1. 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 SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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.

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

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

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).

Non-Major Governmental Funds

Special Revenue Funds The Special Revenue funds are used to account for the proceeds from specific revenue sources (other than trusts, major capital projects, or debt service) that are restricted or committed to expenditures for specified purposes 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.

MENIFEE UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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).

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).

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

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

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

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

Basis of Accounting - Measurement Focus

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

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

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

MENIFEE UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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

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

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

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

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

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

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

MENIFEE UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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, 2017, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

Store Inventories

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

Capital Assets and Depreciation

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

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

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

Interfund Balances

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

MENIFEE UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Compensated Absences

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

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

Accrued Liabilities and Long-Term Obligations

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

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

Debt Issuance Costs, Premiums, and Discounts

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

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

Deferred Outflows/Inflows of Resources

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

MENIFEE UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The District reports deferred inflows of resources for the difference between projected and actual earnings on pension plan investments specific to the net pension liability.

Pensions

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

Fund Balances - Governmental Funds

As of June 30, 2017, 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 SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Minimum Fund Balance Policy

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

Net Position

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The government-wide financial statements report \$17,546,184 of restricted net position.

Interfund Activity

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

Estimates

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

Budgetary Data

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

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

MENIFEE UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Property Tax

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

Change in Accounting Principles

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement No. 43, and Statement No. 50, *Pension Disclosures*.

The District has implemented the provisions of this Statement as of June 30, 2017.

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients;
- The gross dollar amount of taxes abated during the period;
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

The District has implemented the provisions of this Statement as of June 30, 2017.

In December 2015, the GASB issued Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions.

Prior to the issuance of this Statement, the requirements of Statement No. 68 applied to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts that meet the criteria in paragraph 4 of that Statement.

MENIFEE UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

This Statement amends the scope and applicability of Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

The District has implemented the provisions of this Statement as of June 30, 2017.

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - amendment of GASB Statement No. 14*. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*.

The District has implemented the provisions of this Statement as of June 30, 2017.

In March 2016, the GASB issued Statement No. 82, *Pension Issues - An Amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

The District has implemented the provisions of this Statement as of June 30, 2017, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

MENIFEE UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

New Accounting Pronouncements

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

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

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2017. Early implementation is encouraged.

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. Early implementation is encouraged.

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

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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

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

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

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

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

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

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation;
- Reporting amounts previously reported as goodwill and "negative" goodwill;
- Classifying real estate held by insurance entities;
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost;
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus;
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements;

MENIFEE UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB;
- Classifying employer-paid member contributions for OPEB;
- Simplifying certain aspects of the alternative measurement method for OPEB;
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Early implementation is encouraged.

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

The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Early implementation is encouraged.

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

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

MENIFEE UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2017, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 58,821,781
Fiduciary funds	12,115,043
Total Deposits and Investments	<u>\$ 70,936,824</u>

Deposits and investments as of June 30, 2017, consist of the following:

Cash on hand and in banks	\$ 21,978,206
Cash in revolving	5,000
Investments	48,953,618
Total Deposits and Investments	<u>\$ 70,936,824</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 SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

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

MENIFEE UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

Weighted Average Maturity

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

Investment Type	Reported Amount	Weighted Average Maturity In Days
Riverside County Investment Pool	\$ 48,953,618	412
Money Market Mutual Funds	3,209,267	17
Total	\$ 52,162,885	

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 Money Market Mutual Funds are rated AAmmf by Fitch Ratings.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2017, the District's bank balance of \$164,070 was not exposed to custodial credit risk.

MENIFEE UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 3 - FAIR VALUE MEASUREMENTS

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

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

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

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

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

The District's fair value measurements are as follows at June 30, 2017:

Investment Type	Reported Amount	Fair Value Measurements Using			Uncategorized
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	
Riverside County Treasury Investment Pool	\$ 48,953,618	\$ -	\$ -	\$ -	\$ 48,953,618
Money Market Mutual funds	3,209,267	-	-	-	3,209,267
Total	\$ 52,162,885	\$ -	\$ -	\$ -	\$ 52,162,885

All assets have been valued using a market approach, with quoted market prices.

MENIFEE UNION SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 4 - RECEIVABLES

Receivables at June 30, 2017, consisted of intergovernmental grants, entitlements, interest, and other local sources. All receivables are considered collectible in full.

	<u>General Fund</u>	<u>Capital Facilities Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Activities</u>
Federal Government				
Categorical aid	\$ 116,870	\$ -	\$ 339,334	\$ 456,204
State Government				
State principal apportionment	40,144	-	-	40,144
Categorical aid	164,859	-	22,967	187,826
Lottery	411,026	-	-	411,026
Local Government				
Interest	20,480	24,694	2,637	47,811
Other local sources	972,655	188,257	1,819	1,162,731
Total	<u>\$ 1,726,034</u>	<u>\$ 212,951</u>	<u>\$ 366,757</u>	<u>\$ 2,305,742</u>

MENIFEE UNION SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2017, was as follows:

	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 39,893,943	\$ 3,830,605	\$ -	\$ 43,724,548
Construction in process	65,919,386	4,336,129	66,131,150	4,124,365
Total Capital Assets Not Being Depreciated	<u>105,813,329</u>	<u>8,166,734</u>	<u>66,131,150</u>	<u>47,848,913</u>
Capital Assets Being Depreciated				
Site improvements	9,110,931	66,113	-	9,177,044
Buildings and improvements	187,717,688	75,852,302	-	263,569,990
Furniture and equipment	6,543,721	220,416	23,500	6,740,637
Total Capital Assets Being Depreciated	<u>203,372,340</u>	<u>76,138,831</u>	<u>23,500</u>	<u>279,487,671</u>
Total Capital Assets	<u>309,185,669</u>	<u>84,305,565</u>	<u>66,154,650</u>	<u>327,336,584</u>
Less Accumulated Depreciation				
Site improvements	3,756,264	456,523		4,212,787
Buildings and improvements	49,443,174	5,464,349		54,907,523
Furniture and equipment	6,007,529	126,457	23,500	6,110,486
Total Accumulated Depreciation	<u>59,206,967</u>	<u>6,047,329</u>	<u>23,500</u>	<u>65,230,796</u>
Governmental Activities Capital Assets, Net	<u>\$ 249,978,702</u>	<u>\$ 78,258,236</u>	<u>\$ 66,131,150</u>	<u>\$ 262,105,788</u>

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
Instruction	\$ 5,865,909
Home-to-school transportation	181,420
Total Depreciation Expenses Governmental Activities	<u>\$ 6,047,329</u>

MENIFEE UNION SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 6 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund receivable and payable balances at June 30, 2017, between major and non-major governmental funds are as follows:

Due To	Due From			Total
	Capital Facilities Fund	Capital Projects Fund for Blended Component Units	Non-Major Governmental Funds	
General Fund	\$ 39,027	\$ 130,000	\$ 48,186	\$ 217,213

A balance of \$130,000 is due to the General Fund governmental fund from the Capital Projects Fund for Blended Component Units Fund for CFD admin expenses. \$ 130,000

The balance of \$39,027 is due to the General Fund from the Capital Facilities Fund for developer fees admin costs. 39,027

A balance of \$15,320 is due to the General Fund from the Cafeteria Non-Major Fund for indirect charges 15,320

A balance of \$32,866 is due to the General Fund from the Child Development Non-Major Fund for indirect charges 32,866

Total \$ 217,213

MENIFEE UNION SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

Operating Transfers

Interfund transfers for the year ended June 30, 2017, consisted of the following:

Transfer To	Transfer From			Total
	General Fund	Capital Facilities Fund	Capital Projects Fund for Blended Component Units	
General Fund	\$ -	\$ 39,027	\$ 260,000	\$ 299,027
Non-Major Governmental Funds	5,011	-	-	5,011
Total	<u>\$ 5,011</u>	<u>\$ 39,027</u>	<u>\$ 260,000</u>	<u>\$ 304,038</u>

The Capital Project Fund for Blended Component Unit transferred to the General Fund for reimbursement of CFD admin expenses \$ 260,000

The Capital Facilities Fund transferred to the General Fund for developer fees admin costs. 39,027

The General Fund transferred to the Cafeteria Non-Major Fund for bad debt expense. 5,011
 Total \$ 304,038

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2017, consisted of the following:

	General Fund	Building Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total Governmental Activities
Vendor payables	\$ 785,217	\$ -	\$ 5,624	\$ 14,678	\$ 805,519
State principal apportionment	1,043,840	-	-	-	1,043,840
Salaries and benefits	157,240	-	-	5,999	163,239
Construction payables	-	2,756,066	-	-	2,756,066
Total	<u>\$ 1,986,297</u>	<u>\$ 2,756,066</u>	<u>\$ 5,624</u>	<u>\$ 20,677</u>	<u>\$ 4,768,664</u>

MENIFEE UNION SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 8 - UNEARNED REVENUE

Unearned revenue at June 30, 2017, consisted of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal financial assistance	\$ 60,478	\$ -	\$ 60,478
State categorical aid		12,782	12,782
Total	<u>\$ 60,478</u>	<u>\$ 12,782</u>	<u>\$ 73,260</u>

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

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

	Balance Beginning of year (as restated)	Addition	Deductions	Balance End of Year	Due in One Year
General obligation bonds	\$ 47,783,664	\$ 49,071,248	\$ 25,055,000	\$ 71,799,912	\$ 1,575,000
Premium on issuance	1,306,826	4,505,251	66,444	5,745,633	-
Discount on issuance	(108,290)	-	(10,829)	(97,461)	-
Certificates of Participation					
2004 Refunding Series	3,913,400	-	378,442	3,534,958	391,951
QZAB	23,399,353	-	1,178,647	22,220,706	1,247,647
Accumulated vacation	222,717	47,834		270,551	-
Developer fee agreement	2,396,623		366,701	2,029,922	
Net OPEB Asset	(160,603)	89,975	331,862	(402,490)	-
	<u>\$ 78,753,690</u>	<u>\$ 53,714,308</u>	<u>\$ 27,366,267</u>	<u>\$ 105,101,731</u>	<u>\$ 3,214,598</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 and QZAB are paid from the COP Debt Service Fund from resources of the Capital Facilities Fund, including developer fees. Developer fee agreement is being paid from the Capital Facilities fund. The accumulated vacation liability is liquidated in the fund which the employee who earned the vacation is paid from.

MENIFEE UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

General Obligation Bonds

Series 2002 A

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

Series 2002 B

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

Series 2008 A

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

Series 2008 B and C

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

Series 2013 General Obligation Refunding Bonds

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

Series 2014 General Obligation Refunding Bonds

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

MENIFEE UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Series 2016 General Obligation Refunding Bonds

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

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

Series 2017 A

In an election held November 8, 2016, the District voters authorized a bond in the amount of \$23,395,000. The bonds were issued for the purpose of paying to finance the acquisition and construction of eligible school facilities.

MENIFEE UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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

Series	Fiscal Year of Maturities	Interest and Accretion Rates	Original Issue	Bonds/Premium Outstanding Beginning of Year	Accreted Interest or Addition	Redeemed or Amortized	Bonds/Premium and discount Outstanding End of Year	Due in One Year
2002 A	2017	2.37-7.40%	\$ 9,429,203	\$ 317,792	\$ 7,208	\$ 325,000	\$ -	\$ -
2002 B	2031	3.00-4.27%	5,069,720	447,047	27,672	-	474,719	-
	Premiums on Issuance		-	101,582	-	7,814	93,768	-
2008 A	2019	4.00-5.50%	15,730,000	15,380,000	-	14,830,000	550,000	250,000
	Premiums on Issuance		-	189,712	-	11,857	177,855	-
2008 B & C	2039	3.00-10.51%	15,730,000	18,698,825	631,368	9,750,000	9,580,193	250,000
	Premiums on Issuance		-	865,704	-	36,071	829,633	-
2013	2031	1.25-3.00%	8,835,000	8,755,000	-	-	8,755,000	435,000
	Discount on Issuance		-	(108,290)	-	(10,829)	(97,461)	-
2014	2031	2.00-5.00%	4,230,000	4,185,000	-	150,000	4,035,000	125,000
	Premiums on Issuance		-	149,828	-	10,702	139,126	-
2016	2035	2.00-5.00%	25,010,000	-	25,010,000	-	25,010,000	515,000
	Premiums on Issuance		-	-	2,189,921	-	2,189,921	-
2017	2043	3.00-5.00%	23,395,000	-	23,395,000	-	23,395,000	-
	Premiums on Issuance		-	-	2,315,330	-	2,315,330	-
			<u>\$ 107,428,923</u>	<u>\$ 48,982,200</u>	<u>\$ 53,576,499</u>	<u>\$ 25,110,615</u>	<u>\$ 77,448,084</u>	<u>\$ 1,575,000</u>

MENIFEE UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Debt Service Requirements to Maturity

Series 2002 B

The bonds mature as follows:

Fiscal Year	Principal Including Accreted Interest to Date	Accreted Interest	Total
2028-2031	\$ 474,719	\$ 525,281	\$ 1,000,000

Series 2008 A

The bonds mature as follows:

Fiscal Year	Principal	Current Interest to Maturity	Total
2018	\$ 250,000	\$ 22,313	\$ 272,313
2019	300,000	7,875	307,875
Total	\$ 550,000	\$ 30,188	\$ 580,188

Series 2008 B and C

The bonds mature as follows:

Fiscal Year	Principal Including Accreted Interest to Date	Accreted Interest	Current Interest to Maturity	Total
2018	\$ 250,000	\$ -	\$ 33,563	\$ 283,563
2019	300,000	-	22,875	322,875
2020	375,000	-	8,438	383,438
2021	-	-	-	-
2022	-	-	-	-
2023-2027	473,224	1,376,776	-	1,850,000
2028-2032	3,790,042	11,959,958	-	15,750,000
2033-2037	4,391,927	13,608,073	-	18,000,000
Total	\$ 9,580,193	\$ 26,944,807	\$ 64,876	\$ 36,589,876

MENIFEE UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

Series 2013 Refunding

The bonds mature as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Current Interest to Maturity</u>	<u>Total</u>
2018	\$ 435,000	\$ 224,144	\$ 659,144
2019	500,000	217,675	717,675
2020	555,000	208,375	763,375
2021	615,000	196,675	811,675
2022	690,000	182,763	872,763
2023-2027	4,715,000	566,825	5,281,825
2028-2031	1,245,000	18,675	1,263,675
Total	<u>\$ 8,755,000</u>	<u>\$ 1,615,132</u>	<u>\$ 10,370,132</u>

Series 2014 Refunding

The bonds mature as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Current Interest to Maturity</u>	<u>Total</u>
2018	\$ 125,000	\$ 138,313	\$ 263,313
2019	125,000	134,563	259,563
2020	150,000	130,438	280,438
2021	190,000	125,338	315,338
2022	205,000	119,413	324,413
2023-2027	1,280,000	455,388	1,735,388
2028-2031	1,960,000	99,181	2,059,181
Total	<u>\$ 4,035,000</u>	<u>\$ 1,202,634</u>	<u>\$ 5,237,634</u>

MENIFEE UNION SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

Series 2016 Refunding

Fiscal Year	Principal	Current Interest to Maturity	Total
2018	\$ 515,000	\$ 761,981	\$ 1,276,981
2019	340,000	751,731	1,091,731
2020	635,000	743,456	1,378,456
2021	1,080,000	718,681	1,798,681
2022	1,195,000	673,181	1,868,181
2023-2027	8,360,000	2,506,044	10,866,044
2028-2032	9,920,000	911,191	10,831,191
2033-2035	2,965,000	75,063	3,040,063
Total	<u>\$ 25,010,000</u>	<u>\$ 7,141,328</u>	<u>\$ 32,151,328</u>

Series 2017 Series A

Fiscal Year	Principal	Current Interest to Maturity	Total
2018	\$ -	\$ 654,459	\$ 654,459
2019	2,675,000	957,681	3,632,681
2020	2,785,000	848,481	3,633,481
2021	905,000	774,681	1,679,681
2022	750,000	737,831	1,487,831
2023-2027	1,075,000	3,484,031	4,559,031
2028-2032	2,475,000	3,057,381	5,532,381
2033-2037	4,250,000	2,472,909	6,722,909
2038-2042	6,710,000	1,401,725	8,111,725
2043	1,770,000	46,463	1,816,463
Total	<u>\$ 23,395,000</u>	<u>\$ 14,435,642</u>	<u>\$ 37,830,642</u>

Certificates of Participation

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

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

MENIFEE UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

At June 30, 2017, the principal balance outstanding was \$3,534,958.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 391,951	\$ 108,308	\$ 500,259
2019	405,081	95,875	500,956
2020	417,314	82,995	500,309
2021	428,841	69,776	498,617
2022	444,363	56,159	500,522
2023-2026	1,447,408	84,193	1,531,601
Total	<u>\$ 3,534,958</u>	<u>\$ 497,306</u>	<u>\$ 4,032,264</u>

Qualified Zone Academy Bond

In December 2014, the District issued \$25,130,000 aggregate principal amount of Qualified Zone Academy Bond Program (QZAB) certificates of participation. The QZAB certificates represent interest free financing for the District. Owners of the QZAB certificates receive a Federal tax credit in lieu of charging the District interest on the certificates. The certificates mature on June 1, 2031. At, June 30, 2017, the outstanding balance was \$22,220,706.

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2017, amounted to \$270,551.

Developer Fee Agreement

On November 23, 2004 the District entered into a First Amendment to Amended and Restated Memorandum of Understanding ("Agreement") with Pinehurst LLC, which established a credit bank for permits issued within the boundaries of the District. The credits issued were applied by the District to the land acquisition of the Evans Ranch Elementary School site. The credit bank was exhausted and a liability was established to reflect the balance due on the site purchase. Pinehurst LLC will reduce the District's liability with future developer fee credits as they are earned. As of June 30, 2017, the outstanding balance on the site purchase was \$2,029,922.

Other Postemployment Benefits (OPEB) Obligation

The District's annual required contribution for the year ended June 30, 2017, was \$80,687, and contributions made by the District during the year were \$325,438. Interest on the net OPEB asset and adjustments to the annual required contribution were \$6,424 and \$9,288, respectively, which resulted in an increase to the net OPEB asset of \$241,887. As of June 30, 2017, the net OPEB asset was \$402,490. See Note 12 for additional information regarding the OPEB obligation and the postemployment benefits plan.

MENIFEE UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

NOTE 10 - NON OBLIGATORY DEBT

Community Facilities Districts (CFDs)

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

A summary of the CFDs balances at June 30, 2017, is as follows:

Public Finance Authority

PFA 2016 Series A	\$ 40,675,000
PFA 2017 Series	25,985,000

Special Tax Refunding Bonds

CFD 94-1	9,385,000
CFD 99-1 Zone 1	4,055,000
CFD 99-1 Zone 2	4,625,000
CFD 99-1 Improvement Area A	825,000
CFD 2002-1	4,360,000
CFD 2002-3	3,520,000
CFD 2003-3	2,235,000

Special Tax Bonds

CFD 2002-2 (Refunded)	6,620,000
CFD 2004-6	3,710,000
CFD 2006-1	6,565,000
CFD 2006-2	3,480,000
CFD 2006-3	1,760,000
CFD 2011-1 Area 1	16,755,000
CFD 2011-1 Area 2	5,800,000
CFD 2014-1	4,235,000
Total	<u>\$ 144,590,000</u>

MENIFEE UNION SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 11 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Building Fund	Capital Facilities Fund	Capital Project Fund for Blended Component Units	Non-Major Governmental Funds	Total
Nonspendable						
Revolving cash	\$ 5,000	\$ -	\$ -	\$ -	\$ -	\$ 5,000
Stores inventories	-	-	-	-	47,304	47,304
Total Nonspendable	<u>5,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>47,304</u>	<u>52,304</u>
Restricted						
Legally restricted programs	1,336,416	-	-	-	1,372,710	2,709,126
Capital projects	-	20,316,959	10,362,123	9,863,163	-	40,542,245
Debt services	-	-	-	-	5,067,222	5,067,222
Total Restricted	<u>1,336,416</u>	<u>20,316,959</u>	<u>10,362,123</u>	<u>9,863,163</u>	<u>6,439,932</u>	<u>48,318,593</u>
Assigned						
Donations resource (0600)	99,776	-	-	-	-	99,776
Library funds resource (0602)	14,901	-	-	-	-	14,901
Instructional materials textbooks (0854)	131,485	-	-	-	-	131,485
Budget Contingencies	1,709,147	-	-	-	-	1,709,147
LCFF Supplemental- Unfilled Positions (0021)	526,939	-	-	-	-	526,939
LCFF Supplemental- Site money (0021)	297,483	-	-	-	-	297,483
Technology- Device Repaid Replaced (0020)	79,999	-	-	-	-	79,999
Valley health PE grant (0012)	25,100	-	-	-	-	25,100
Discretionary Tech and Curriculum (0006)	2,356,792	-	-	-	-	2,356,792
Total Assigned	<u>5,241,622</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,241,622</u>
Unassigned						
Economic uncertainties	2,850,383	-	-	-	-	2,850,383
Remaining unassigned	-	-	-	(130,000)	-	(130,000)
Total Unassigned	<u>2,850,383</u>	<u>-</u>	<u>-</u>	<u>(130,000)</u>	<u>-</u>	<u>2,720,383</u>
Total	<u>\$ 9,433,421</u>	<u>\$ 20,316,959</u>	<u>\$ 10,362,123</u>	<u>\$ 9,733,163</u>	<u>\$ 6,487,236</u>	<u>\$ 56,332,902</u>

MENIFEE UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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

Plan Description

The Postemployment Benefits Plan (the "Plan") is a single-employer defined benefit healthcare plan administered by the Menifee Union School District. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses.

Contribution Information

The contribution requirements of Plan members and the District are established and may be amended by the District and the Menifee Teachers Association (MTA), the Menifee Council of Classified Employees (MCCE), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2016-2017, the District contributed \$325,438 to the Plan, all of which was used for current premiums.

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	\$ 80,687
Interest on net OPEB asset	(6,424)
Adjustment to annual required contribution	9,288
Annual OPEB cost (expense)	<u>83,551</u>
Contributions made	<u>(325,438)</u>
Increase in net OPEB asset	(241,887)
Net OPEB asset, beginning of year	<u>(160,603)</u>
Net OPEB asset, end of year	<u><u>\$ (402,490)</u></u>

MENIFEE UNION SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

Trend Information

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

Year Ended June 30,	Annual OPEB Cost	Actual Employer Contribution	Percentage Contributed	Net OPEB Asset
2015	\$ 80,590	\$ 185,755	230.49%	\$ (99,726)
2016	82,465	143,342	173.82%	(160,603)
2017	83,551	325,438	389.51%	(402,490)

Funded Status and Funding Progress

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

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) ¹	UAAL as a Percentage of Covered Payroll ([b - a] / c)
July 1, 2014	\$ -	\$ 946,940	\$ 946,940	0%	\$ 1,218,290	78%

¹No active employees are included in the current plan.

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, 2017, 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.

MENIFEE UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Workers' Compensation

For fiscal year 2017, the District participated in the Protected Insurance Program for Schools (PIPS). The intent of the PIPS is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the PIPS. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate. Each participant pays its workers' compensation premium based on its individual rate.

NOTE 14 - EMPLOYEE RETIREMENT SYSTEM

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

For the fiscal year ended June 30, 2017, the District reported net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

<u>Pension Plan</u>	<u>Collective Net Pension Liability</u>	<u>Collective Deferred Outflows of Resources</u>	<u>Collective Deferred Inflows of Resources</u>	<u>Collective Pension Expense</u>
CalSTRS	\$ 67,770,888	\$ 16,076,341	\$ 1,653,193	\$ 7,451,925
CalPERS	17,018,276	5,345,707	511,298	2,411,974
Total	<u>\$ 84,789,164</u>	<u>\$ 21,422,048</u>	<u>\$ 2,164,491</u>	<u>\$ 9,863,899</u>

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

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

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

MENIFEE UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Benefits Provided

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

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

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

The STRP provisions and benefits in effect at June 30, 2017, are summarized as follows:

	STRP Defined Benefit Program	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 Years of Service	5 Years of Service
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	10.25%	9.205%
Required employer contribution rate	12.58%	12.58%
Required state contribution rate	8.828%	8.828%

Contributions

Required member District and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven year period. The contribution rates for each plan for the year ended June 30, 2017, are presented above and the District's total contributions were \$5,852,144.

MENIFEE UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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

At June 30, 2017, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related state support and the total portion of the net pension liability that was associated with the District were as follows:

Total Net Pension Liability, Including State Share:

District's proportionate share of net pension liability	\$ 67,770,888
State's proportionate share of the net pension liability associated with the District	38,580,758
Total	<u><u>\$ 106,351,646</u></u>

The net pension liability was measured as of June 30, 2016. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportionate share for the measurement period June 30, 2016 and June 30, 2015, respectively, was 0.0838 percent and 0.0816 percent, resulting in a net increase in the proportionate share of 0.0022 percent.

For the year ended June 30, 2017, the District recognized pension expense of \$7,451,925. In addition, the District recognized pension expense and revenue of \$3,729,236 for support provided by the State. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 5,852,144	\$ -
Net change in proportionate share of net pension liability	4,836,445	-
Differences between projected and actual earnings on pension plan investments	5,387,752	-
Differences between expected and actual experience in the measurement of the total pension liability	-	1,653,193
Total	<u><u>\$ 16,076,341</u></u>	<u><u>\$ 1,653,193</u></u>

MENIFEE UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2018	\$ 117,543
2019	117,544
2020	3,131,919
2021	2,020,746
Total	<u>\$ 5,387,752</u>

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the expected remaining service life (EARSL) of all member that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 7 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2018	\$ 619,872
2019	619,872
2020	619,872
2021	619,872
2022	619,872
Thereafter	83,892
Total	<u>\$ 3,183,252</u>

MENIFEE UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2015, and rolling forward the total pension liability to June 30, 2016. The financial reporting actuarial valuation as of June 30, 2015, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2015
Measurement date	June 30, 2016
Experience study	July 1, 2006 through June 30, 2010
Actuarial cost method	Entry age normal
Discount rate	7.60%
Investment rate of return	7.60%
Consumer price inflation	3.00%
Wage growth	3.75%

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series tables adjusted to fit CalSTRS experience.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant. Based on the model for CalSTRS consulting actuary's investment practice, a best estimate range was determined by assuming the portfolio is re-balanced annually and that the annual returns are lognormally distributed and independent from year to year to develop expected percentiles for the long-term distribution of annualized returns. The assumed asset allocation is based on Teachers' Retirement Board of the California State Teachers' Retirement System (board) policy for target asset allocation in effect on February 2, 2012, the date the current experience study was approved by the board. Best estimates of 10-year geometric real rates of return and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return are summarized in the following table:

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

MENIFEE UNION SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

Discount Rate

The discount rate used to measure the total pension liability was 7.60 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.60 percent) and assuming that contributions, benefit payments and administrative expense occurred midyear. Based on these assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.60%)	\$ 97,537,592
Current discount rate (7.60%)	67,770,888
1% increase (8.60%)	43,048,394

California Public Employees Retirement System (CalPERS)

Plan Description

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

A full description of the pension plans regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2015 annual actuarial valuation report, Schools Pool Actuarial Valuation, and the Risk Pool Actuarial Valuation Report, Safety. These reports and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/forms-publications>.

MENIFEE UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Benefits Provided

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

The CalPERS provisions and benefits in effect at June 30, 2017, are summarized as follows:

	<u>School Employer Pool (CalPERS)</u>	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 Years of Service	5 Years of Service
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.00%	6.00%
Required employer contribution rate	11.85%	11.85%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2017, are presented above and the total District contributions were \$1,527,745.

MENIFEE UNION SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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

As of June 30, 2017, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$17,018,276. The net pension liability was measured as of June 30, 2016. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2016 and June 30, 2015, respectively, was 0.0862 percent and 0.0840 percent, resulting in a net increase in the proportionate share of 0.0022 percent.

For the year ended June 30, 2017, the District recognized pension expense of \$2,411,974. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 1,527,745	\$ -
Net change in proportionate share of net pension liability	445,323	-
Difference between projected and actual earnings on pension plan investments	2,640,690	-
Differences between expected and actual experience in the measurement of the total pension liability	731,949	-
Changes of assumptions	-	511,298
Total	<u>\$ 5,345,707</u>	<u>\$ 511,298</u>

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2018	\$ 370,392
2019	370,393
2020	1,210,709
2021	689,196
Total	<u>\$ 2,640,690</u>

MENIFEE UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2018	\$ 258,385
2019	250,052
2020	157,537
Total	<u>\$ 665,974</u>

Actuarial Methods and Assumptions

Total pension liability for the SEP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2015, and rolling forward the total pension liability to June 30, 2016. The financial reporting actuarial valuation as of June 30, 2015, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2015
Measurement date	June 30, 2016
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7.65%
Investment rate of return	7.65%
Consumer price inflation	2.75%
Wage growth	Varies by entry age and service

Mortality assumptions are based on mortality rates resulting from the most recent CalPERS experience study adopted by the CalPERS Board. For purposes of the post-retirement mortality rates, those revised rates include five years of projected ongoing mortality improvement using Scale AA published by the Society of Actuaries.

MENIFEE UNION SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first ten years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	51%	5.71%
Global debt securities	20%	2.43%
Inflation Assets	6%	3.36%
Private Equity	10%	6.95%
Real Estate	10%	5.13%
Infrastructure and Forestland	2%	5.09%
Liquidity	1%	-1.05%

Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

Discount rate	Net Pension Liability
1% decrease (6.65%)	\$ 25,391,362
Current discount rate (7.65%)	17,018,276
1% increase (8.65%)	10,046,034

MENIFEE UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$3,182,099 (8.602 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*.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

Litigation

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

Federal and State Grants

The District received financial assistance from Federal and State agencies in the form of grants for categorical and construction. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2017.

MENIFEE UNION SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 16 - PARTICIPATION IN JOINT POWER AUTHORITIES

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

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

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

During the year ended June 30, 2017, the District made payments of \$500,345 to Riverside Schools' Insurance Authority, \$1,471,558 to Protected Insurance Program for Schools, and \$6,736,614 to Self Insurance Schools' of California III for insurance.

NOTE 17 - CORRECTION OF AN ERROR OF PRIOR YEAR NET POSITION

Certain items that occur in the prior year net position and fund balances have been restated as of June 30, 2017, to more accurately reflect the substance of the underlying transactions. The following table summarizes the reason for the restatement. As a result, the effect on the current fiscal year is as follows:

STATEMENT OF NET POSITION

Net Position- Beginning	\$ 152,521,779
Understatement of Long term debt (Developer Fee Agreement)	(2,396,623)
Net Position. Beginning, as restated	<u>\$ 150,125,156</u>

REQUIRED SUPPLEMENTARY INFORMATION

MENIFEE UNION SCHOOL DISTRICT

**GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)
	Original	Final		Final to Actual
REVENUES				
Local Control Funding Formula	\$ 75,170,333	\$ 76,963,840	\$ 76,758,257	\$ (205,583)
Federal sources	3,161,605	3,057,906	3,283,935	226,029
Other State sources	8,336,391	8,482,518	8,552,746	70,228
Other local sources	4,162,754	5,100,535	4,435,437	(665,098)
Total Revenues	90,831,083	93,604,799	93,030,375	(574,424)
EXPENDITURES				
Current				
Certificated salaries	44,782,550	47,247,278	47,033,925	213,353
Classified salaries	12,757,770	13,089,420	12,975,120	114,300
Employee benefits	20,381,622	20,431,977	20,144,684	287,293
Books and supplies	2,775,425	3,318,876	3,072,189	246,687
Services and operating expenditures	10,284,388	11,187,937	10,229,590	958,347
Other outgo	(157,118)	(157,118)	241,343	(398,461)
Capital outlay	292,458	137,171	132,290	4,881
Debt service - principal	1,435,164	1,435,254	1,178,647	256,607
Total Expenditures	92,552,259	96,690,795	95,007,788	1,683,007
Excess (Deficiency) of Revenues Over Expenditures	(1,721,176)	(3,085,996)	(1,977,413)	1,108,583
Other Financing Sources (Uses)				
Transfers in	66,000	66,000	299,027	233,027
Transfers out	(28,432)	-	(5,011)	(5,011)
Net Financing Sources	37,568	66,000	294,016	228,016
NET CHANGE IN FUND BALANCE	(1,683,608)	(3,019,996)	(1,683,397)	1,336,599
Fund Balance - Beginning	11,116,818	11,116,818	11,116,818	-
Fund Balance - Ending	\$ 9,433,210	\$ 8,096,822	\$ 9,433,421	\$ 1,336,599

MENIFEE UNION SCHOOL DISTRICT

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB)
FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2017**

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) ¹	UAAL as a Percentage of Covered Payroll ([b - a] / c)
July 1, 2014	\$ -	\$ 946,940	\$ 946,940	0%	\$ 1,218,290	78%

¹ No active employees are included in the current plan.

MENIFEE UNION SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY FOR THE YEAR ENDED JUNE 30, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>
CalSTRS			
District's proportion of the net pension liability	<u>0.0838%</u>	<u>0.0816%</u>	<u>0.0750%</u>
District's proportionate share of the net pension liability	<u>\$ 67,770,888</u>	<u>\$ 54,954,910</u>	<u>\$ 43,807,701</u>
State's proportionate share of the net pension liability associated with the District	<u>38,580,758</u>	<u>29,065,089</u>	<u>26,452,981</u>
Total	<u><u>\$ 106,351,646</u></u>	<u><u>\$ 84,019,999</u></u>	<u><u>\$ 70,260,682</u></u>
District's covered - employee payroll	<u>\$ 46,519,428</u>	<u>\$ 41,439,497</u>	<u>\$ 36,965,574</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>145.68%</u>	<u>132.61%</u>	<u>118.51%</u>
Plan (CalSTRS) fiduciary net position as a percentage of the total pension liability	<u>70%</u>	<u>74%</u>	<u>77%</u>
CalPERS			
District's proportion of the net pension liability	<u>0.0862%</u>	<u>0.0840%</u>	<u>0.0813%</u>
District's proportionate share of the net pension liability	<u>\$ 17,018,276</u>	<u>\$ 12,375,927</u>	<u>\$ 9,235,131</u>
District's covered - employee payroll	<u>\$ 10,998,884</u>	<u>\$ 10,609,834</u>	<u>\$ 9,099,414</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>154.73%</u>	<u>116.65%</u>	<u>101.49%</u>
Plan (CalPERS) fiduciary net position as a percentage of the total pension liability	<u>74%</u>	<u>79%</u>	<u>83%</u>

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

MENIFEE UNION SCHOOL DISTRICT

**SCHEDULE OF DISTRICT CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
CalSTRS			
Contractually required contribution	\$ 5,852,144	\$ 4,446,458	\$ 3,282,543
Contributions in relation to the contractually required contribution	<u>5,852,144</u>	<u>4,446,458</u>	<u>3,282,543</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 46,519,428</u>	<u>\$ 41,439,497</u>	<u>\$ 36,965,574</u>
Contributions as a percentage of covered - employee payroll	<u>12.58%</u>	<u>10.73%</u>	<u>8.88%</u>
CalPERS			
Contractually required contribution	\$ 1,527,745	\$ 1,256,947	\$ 1,071,092
Contributions in relation to the contractually required contribution	<u>1,527,745</u>	<u>1,256,947</u>	<u>1,071,092</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 10,998,884</u>	<u>\$ 10,609,834</u>	<u>\$ 9,099,414</u>
Contributions as a percentage of covered - employee payroll	<u>13.89%</u>	<u>11.85%</u>	<u>11.77%</u>

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

MENIFEE UNION SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2017

NOTE 1 - PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

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

Schedule of Other Postemployment Benefits (OPEB) Funding Progress

This schedule is intended to show trends about the funding progress of the District's actuarially determined liability for postemployment benefits other than pensions.

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

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

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

Changes in Assumptions-There were no changes in economic assumptions for either the CalSTRS or CalPERS plans from the previous valuations.

Schedule of District Contributions

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

SUPPLEMENTARY INFORMATION

MENIFEE UNION SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017**

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
Title I, Part A - Basic Grants Low Income and Neglected	84.010	14981	\$ 1,123,109
Title II, Part A - Improving Teacher Quality Local Grants	84.367	14341	76,213
Title III			
Title III - Imigrant Education Program	84.365	15146	12,343
Title III - Limited English Proficient (LEP) Student Program	84.365	14346	111,192
Total Title III			<u>123,535</u>
Passed through Riverside County Special Education Local Plan Area:			
Special Education (IDEA) Cluster:			
Basic Local Assistance Entitlement, Part B, Section 611	84.027	13379	1,471,462
Preschool Grants, Part B, Section 619 (Age 3-4-5)	84.173	13430	52,351
Preschool Local Entitlement, Part B, Section 611 (Age 3-4-5)	84.027A	13682	197,672
Mental Health Allocation Plan, Part B, Section 611	84.027	14468	50,797
Preschool Staff Development, Part B, Section 619	84.173A	13431	536
Total Special Education (IDEA) Cluster			<u>1,772,818</u>
Total U.S. Department of Education			<u>3,095,675</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through CDE:			
Child Nutrition Cluster:			
Basic School Breakfast Program	10.553	13390	8,378
Especially Needy Breakfast	10.553	13526	351,718
National School Lunch Program	10.555	13524	1,681,632
Total Child Nutrition Cluster			<u>2,041,728</u>
Child and Adult Care Food Program	10.558	13393	9,129
Total U.S. Department of Agriculture			<u>2,050,857</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through California Department of Health Services:			
Medi-Cal Billing Option	93.778	10013	297,109
Total Federal Programs			<u>\$ 5,443,641</u>

See accompanying note to supplementary information.

MENIFEE UNION SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2017

ORGANIZATION

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

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Robert O'Donnell	President	2020
Ron Ulibarri	Vice President	2018
Reg Bennett	Clerk	2020
Randall Freeman	Deputy Clerk	2018
Jerry Bowman	Member	2018

ADMINISTRATION

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

See accompanying note to supplementary information.

MENIFEE UNION SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE FOR THE YEAR ENDED JUNE 30, 2017

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	4,453.40	4,459.92
Fourth through sixth	3,215.51	3,212.24
Seventh and eighth	2,021.53	2,023.10
Total Regular ADA	<u>9,690.44</u>	<u>9,695.26</u>
Extended Year Special Education		
Transitional kindergarten through third	4.63	4.63
Fourth through sixth	1.93	1.93
Seventh and eighth	0.85	0.85
Total Extended Year Special Education	<u>7.41</u>	<u>7.41</u>
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	1.85	1.33
Fourth through sixth	5.23	3.35
Seventh and eighth	5.85	3.59
Total Special Education, Nonpublic, Nonsectarian Schools	<u>12.93</u>	<u>8.27</u>
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.12	0.12
Fourth through sixth	0.74	0.74
Seventh and eighth	0.55	0.55
Total Special Education, Nonpublic, Nonsectarian Schools	<u>1.41</u>	<u>1.41</u>
Total ADA	<u>9,712.19</u>	<u>9,712.35</u>

See accompanying note to supplementary information.

MENIFEE UNION SCHOOL DISTRICT

**SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2017**

<u>Grade Level</u>	<u>1986-87 Minutes Requirement</u>	<u>2016-17 Actual Minutes</u>	<u>Number of Days</u>		<u>Status</u>
			<u>Traditional Calendar</u>	<u>Multitrack Calendar</u>	
Kindergarten	36,000	38,700	180	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		52,740	180	N/A	Complied
Grade 2		52,740	180	N/A	Complied
Grade 3		54,140	180	N/A	Complied
Grades 4 - 6	54,000				
Grade 4		54,140	180	N/A	Complied
Grade 5		54,140	180	N/A	Complied
Grade 6		54,700	180	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		54,700	180	N/A	Complied
Grade 8		54,700	180	N/A	Complied

See accompanying note to supplementary information.

MENIFEE UNION SCHOOL DISTRICT

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2017.

See accompanying note to supplementary information.

MENIFEE UNION SCHOOL DISTRICT

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017**

	(Budget) 2018 ¹	2017	2016	2015
GENERAL FUND				
Revenues	\$ 95,898,411	\$ 89,848,276	\$ 89,369,854	\$ 74,654,902
Other sources and transfers in	66,000	299,027	95,853	130,000
Total Revenues and Other Sources	95,964,411	90,147,303	89,465,707	74,784,902
Expenditures	97,810,341	95,007,788	89,378,131	73,921,666
Other uses and transfers out	353,000	5,011	20,492	10,135
Total Expenditures and Other Uses	98,163,341	95,012,799	89,398,623	73,931,801
INCREASE (DECREASE) IN FUND BALANCE	\$ (2,198,930)	\$ (4,865,496)	\$ 67,084	\$ 853,101
ENDING FUND BALANCE	\$ 4,052,392	\$ 6,251,322	\$ 11,116,818	\$ 11,049,734
AVAILABLE RESERVES²	\$ 2,944,900	\$ 2,850,384	\$ 8,028,759	\$ 6,201,181
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO³	3.00%	3.00%	8.98%	8.39%
LONG-TERM OBLIGATIONS	N/A	\$105,101,731	\$ 78,753,690	\$ 78,474,862
K-12 AVERAGE DAILY ATTENDANCE AT P-2	10,007	9,712	9,352	9,107

The General Fund balance has decreased by \$1,616,313 over the past two years. The fiscal year 2017-2018 budget projects a further decrease of \$2,198,930 (23.31 percent). For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in two of the past three years but anticipates incurring an operating deficit during the 2017-2018 fiscal year. Total long-term obligations have increased by \$26,626,869 over the past two years.

Average daily attendance has increased by 605 over the past two years. Additional growth of 295 ADA is anticipated during fiscal year 2017-2018.

¹ Budget 2018 is included for analytical purposes only and has not been subjected to audit.

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

³ On behalf payments of \$2,449,330, and \$1,845,563 have been excluded from the calculation of available reserves for the fiscal years ending June 30, 2016, and 2015.

See accompanying note to supplementary information.

MENIFEE UNION SCHOOL DISTRICT

**SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2017**

<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 SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2017**

	Child Development Fund	Cafeteria Fund	Bond Interest and Redemption Fund	Total Non-Major Governmental Funds
ASSETS				
Deposits and investments	\$ 110,013	\$ 977,586	\$ 5,067,222	\$ 6,154,821
Receivables	350	366,407	-	366,757
Stores inventories	-	47,303	-	47,303
Total Assets	\$ 110,363	\$ 1,391,296	\$ 5,067,222	\$ 6,568,881
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 14,725	\$ 5,952	\$ -	\$ 20,677
Due to other funds	32,866	15,320	-	48,186
Unearned revenue	12,782	-	-	12,782
Total Liabilities	60,373	21,272	-	81,645
Fund Balances:				
Nonspendable	-	47,304	-	47,304
Restricted	49,990	1,322,720	5,067,222	6,439,932
Total Fund Balances	49,990	1,370,024	5,067,222	6,487,236
Total Liabilities and Fund Balances	\$ 110,363	\$ 1,391,296	\$ 5,067,222	\$ 6,568,881

See accompanying note to supplementary information.

MENIFEE UNION SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2017

	Child Development Fund	Cafeteria Fund	Bond Interest and Redemption Fund	Total Non-Major Governmental Funds
REVENUES				
Federal sources	\$ -	\$ 2,050,857	\$ -	\$ 2,050,857
Other State sources	674,851	151,546	33,894	860,291
Other local sources	790	934,430	2,945,409	3,880,629
Total Revenues	<u>675,641</u>	<u>3,136,833</u>	<u>2,979,303</u>	<u>6,791,777</u>
EXPENDITURES				
Current				
Instruction	421,832	-	-	421,832
Instruction-related activities:				-
Supervision of instruction	156,039	-	-	156,039
Pupil services:				-
Food services	-	3,022,075	-	3,022,075
All other pupil services	15,152	-	-	15,152
General administration:				-
All other general administration	32,628	146,518	-	179,146
Plant services	-	4,587	-	4,587
Facility acquisition and construction	-	-	-	-
Other outgo	-	-	-	-
Debt service				
Principal	-	-	24,854,920	24,854,920
Interest and other	-	-	4,982,234	4,982,234
Total Expenditures	<u>625,651</u>	<u>3,173,180</u>	<u>29,837,154</u>	<u>33,635,985</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>49,990</u>	<u>(36,347)</u>	<u>(26,857,851)</u>	<u>(26,844,208)</u>
Other Financing Sources				
Transfers in	-	5,011	-	5,011
NET CHANGE IN FUND BALANCES	49,990	(31,336)	2,979,375	2,998,029
Fund Balances - Beginning	-	1,401,360	2,087,847	3,489,207
Fund Balances - Ending	<u>\$ 49,990</u>	<u>\$ 1,370,024</u>	<u>\$ 5,067,222</u>	<u>\$ 6,487,236</u>

See accompanying note to supplementary information.

MENIFEE UNION SCHOOL DISTRICT

**NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2017**

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The District has not elected to use the ten percent de minimis cost rate as covered in Section 200.414 Indirect (F&A) costs of the Uniform Guidance.

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

Description	CFDA Number	Amount
Total Federal Revenues Statement of Revenues, Expenditures and Changes in Fund Balance:		\$ 5,334,792
Medi-Cal Billing Option	93.778	108,849
Total Schedule of Expenditures of Federal Awards		<u>\$ 5,443,641</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.

MENIFEE UNION SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2017

Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. The District neither met nor exceeded its target funding. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *Education Code* Sections 46200 through 46206.

Districts must maintain their instructional minutes at the 1986-87 requirements, as required by *Education Code* Section 46201.

Reconciliation of Annual Financial and Budget Report With Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

Schedule of Charter Schools

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

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

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

INDEPENDENT AUDITOR'S REPORTS



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

Governing Board
Menifee Union School District
Menifee, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Menifee Union School District (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Menifee Union School District's basic financial statements, and have issued our report thereon dated December 8, 2017.

Corrector of Error

As discussed in Note 17 to the financial statements, the beginning net position of the government-wide financial statements was restated due to a restatement of certain long term obligations. Our opinion is not modified with respect to this matter.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of This Report

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

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California
December 8, 2017



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

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

Governing Board
Menifee Union School District
Menifee, California

Report on Compliance for Each Major Federal Program

We have audited Menifee Union School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Menifee Union School District's (the District) major Federal programs for the year ended June 30, 2017. Menifee Union School District's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Menifee Union School District's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Menifee Union School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Menifee Union School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of Menifee Union School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Menifee Union School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Menifee Union School District's internal control over compliance.

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

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

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

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California
December 8, 2017



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

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INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Menifee Union School District
Menifee, California

Report on State Compliance

We have audited Menifee Union School District's compliance with the types of compliance requirements as identified in the *2016-2017 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of the Menifee Union School District's State government programs as noted below for the year ended June 30, 2017.

Management's Responsibility

State laws, regulations, and the terms and conditions of its State awards applicable to its State programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the Menifee Union School District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2016-2017 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about Menifee Union School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of Menifee Union School District's compliance with those requirements.

Unmodified Opinion on Each of the Programs

In our opinion, Menifee Union School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2017.

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

	Procedures Performed
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS:	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	No, See Below
Continuation Education	No, See Below
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	No, See Below
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	No, See Below
Middle or Early College High Schools	No, See Below
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS:	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After School Education and Safety Program:	
General Requirements	No, See Below
After School	No, See Below
Before School	No, See Below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No, See Below
Immunizations	Yes, See Below
CHARTER SCHOOLS:	
Contemporaneous Records of Attendance	No, See Below
Mode of Instruction	No, See Below
Non Classroom-Based Instruction/Independent Study for Charter Schools	No, See Below
Determination of Funding for Non Classroom-Based Instruction	No, See Below
Annual Instruction Minutes Classroom-Based	No, See Below
Charter School Facility Grant Program	No, See Below

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

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

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

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

The District does not have a Middle or Early College High School Program; therefore, we did not perform procedures related to the Middle or Early College High School Program.

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

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

The District did not have any schools listed on the immunization assessment reports; therefore, we did not perform any related procedures.

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

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California
December 8, 2017

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MENIFEE UNION SCHOOL DISTRICT

**SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2017**

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

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

Identification of major Federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>84.010</u>	<u>Title I, Part A Basic Grants Low Income and Neglected</u>

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

STATE AWARDS

Type of auditor's report issued on compliance for State programs:	<u>Unmodified</u>
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MENIFEE UNION SCHOOL DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017**

None reported.

MENIFEE UNION SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017**

None reported.

MENIFEE UNION SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017**

None reported.

MENIFEE UNION SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017**

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