



**MENIFEE UNION ELEMENTARY
SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2004

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT
OF RIVERSIDE COUNTY
MENIFEE, CALIFORNIA
JUNE 30, 2004

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Patricia Hanson	President	2004
Victor Giardinelli	Clerk	2006
Rita J. Peters	Member	2004
Chester W. Morrison	Member	2006
Robert O'Donnell	Member	2004

ADMINISTRATION

Gary Cringan, Ed.D.	Superintendent
Daniel Wood	Assistant Superintendent, Business
Linda Callaway, Ed.D.	Assistant Superintendent, Personnel Services
Laraine Hair	Assistant Superintendent, Curriculum and Instruction
Jeanne Bargman	Director of Pupil Personnel Services
Pam Gillette	Director of Fiscal Services

ORGANIZATION

The Meniffee Union Elementary School District was established on December 7, 1951, by combining the Meniffee and Antelope School Districts; and is comprised of an area of approximately 60 square miles located in Riverside County. There were no changes in the boundaries of the District during the current year. The District is currently operating five elementary schools and two middle schools.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

TABLE OF CONTENTS JUNE 30, 2004

FINANCIAL SECTION

Independent Auditors' Report	2
Management's Discussion and Analysis	4
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets	11
Statement of Activities	12
Fund Financial Statements	
Governmental Funds - Balance Sheet	13
Governmental Funds - Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	14
Governmental Funds - Statement of Revenues, Expenditures, and Changes in Fund Balance	15
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the District-Wide Statement of Activities	16
Fiduciary Funds - Statement of Net Assets	17
Notes to Financial Statements	18

REQUIRED SUPPLEMENTARY INFORMATION

General Fund - Budgetary Comparison Schedule	42
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SUPPLEMENTARY INFORMATION

Schedule of Expenditures of Federal Awards	44
Schedule of Average Daily Attendance	45
Schedule of Instructional Time	46
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements	47
Schedule of Financial Trends and Analysis	48
Combining Statements - Non-Major Governmental Funds	
Combining Balance Sheet	49
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance	50
Combining Statements - Non-Major Community Facilities District - Capital Facilities Funds	
Combining Balance Sheet	51
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance	52
Combining Statements - Non-Major Community Facilities District - Debt Service Funds	
Combining Balance Sheet	53
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance	54
Note to Supplementary Information	55

INDEPENDENT AUDITORS' REPORTS

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	58
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	60
Report on State Compliance	62

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

TABLE OF CONTENTS
JUNE 30, 2004

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of Auditors' Results	65
Financial Statement Findings	66
Federal Award Findings and Questioned Costs	68
State Award Findings and Questioned Costs	69
Summary Schedule of Prior Audit Findings	70
Management Letter	72

FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

Governing Board
Menifee Union Elementary School District
Menifee, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Menifee Union Elementary School District (the District), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Menifee Union Elementary School District, as of June 30, 2004, and the respective changes in financial positions, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2004, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The required supplementary information, such as management's discussion and analysis on pages 4 through 10 and budgetary comparison information on page 42, are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Varenik, Tume, Day & Co., LLP

Rancho Cucamonga, California
September 17, 2004



MENIFEE UNION SCHOOL DISTRICT

30205 Menifee Road, Menifee, California 92584
(909) 672-1851 • FAX (909) 672-1385

Menifee Pride
Working For You

Superintendent
Gary Cringan, Ed.D.

This section of Menifee Union Elementary School District's (audited) annual financial report presents our discussion and analysis of the Menifee Union Elementary School District's financial performance during the fiscal year that ended on June 30, 2004. Please read it in conjunction with the District's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

The financial statements presented herein include all of the activities of the Menifee Union Elementary School District (the District) and its component units using the integrated approach as prescribed by GASB Statement Number 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, as well as all liabilities (including long-term debt). Additionally, certain eliminations have occurred as prescribed by the statement in regards to interfund activity, payables, and receivables.

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

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

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

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

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

FINANCIAL HIGHLIGHTS OF THE PAST YEAR

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Assets and the Statement of Activities

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

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2004

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

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

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

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

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

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

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2004**

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

THE DISTRICT AS A WHOLE

Net Assets

The District's net assets were \$61,700,106 for the fiscal year ended June 30, 2004. Of this amount, \$28,655,648 was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School Board's ability to use those net assets for day-to-day operations. Our analysis below focuses on the net assets (Table 1) and change in net assets (Table 2) of the District's governmental activities.

Table 1

	Governmental Activities	
	2004	2003
Current and other assets	\$ 45,701,837	\$ 43,340,771
Capital assets	57,258,198	48,226,011
Total Assets	102,960,035	91,566,782
Current liabilities	3,571,002	2,366,816
Long-term debt	37,688,927	31,837,985
Total Liabilities	41,259,929	34,204,801
Net assets		
Invested in capital assets, net of related debt	19,191,895	16,271,808
Restricted	13,852,563	14,464,555
Unrestricted	28,655,648	26,625,618
Total Net Assets	\$ 61,700,106	\$ 57,361,981

The \$28,655,648 in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2004

Changes in Net Assets

The results of this year's operations for the District as a whole are reported in the *Statement of Activities* on page 12.

Table 2

	Governmental Activities	
	2004	2003
Revenues		
Program revenues:		
Charges for services	\$ 7,301,609	\$ 1,427,140
Operating grants and contributions	6,712,732	5,603,696
Capital grants and contributions	-	5,099,077
General revenues:		
State revenue limit sources	24,200,877	27,898,583
Property taxes	6,117,754	4,299,041
Other general revenues	1,638,310	3,290,767
Total Revenues	\$ 45,971,282	\$ 47,618,304
Expenses		
Instruction related	27,253,767	24,605,797
Student support services	3,206,723	2,672,543
Administration	2,024,153	1,672,904
Maintenance and operations	10,369,599	875,575
Other	3,397,765	2,185,138
Total Expenses	46,252,007	32,011,957
Change in Net Assets	\$ (280,725)	\$ 15,606,347

Governmental Activities

As reported in the *Statement of Activities* on page 12, the cost of all of our governmental activities this year was \$46,252,007. However, \$31,956,941 of that balance was financed from District's unrestricted general revenues. This represents the total cost less the costs paid by those who benefited from the programs (\$7,301,609), or by the other governments and organizations who subsidized certain programs with grants and contributions (\$6,712,732). Of the \$36,652,089, local taxpayers paid \$6,117,754.

In Table 3, we have presented the cost of each of the District's seven largest functions – instruction, instruction-related activities, pupil services, general administration, plant services, facilities acquisition and construction, and other governmental activities. 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.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2004

Table 3

	<u>Total Cost of Services</u>	<u>Net Cost of Services *</u>
Instruction	\$ 23,496,070	\$ 18,870,882
Instruction-related activities	3,757,697	3,284,488
Other pupil services	3,206,723	1,246,244
General administration	2,024,153	1,796,917
Plant services	4,051,930	3,970,789
Facility acquisition and construction	6,317,669	530,847
Other	3,397,765	2,537,499
Totals	\$ 46,252,007	\$ 32,237,666

* Net of changes for services, sales, and operating grants.

THE DISTRICTS FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$43,360,083 as detailed below:

	<u>Fund Balance</u>	
	<u>June 30,</u>	
	<u>2004</u>	<u>2003</u>
General	\$ 6,204,450	\$ 5,859,929
Building	7,548,760	9,438,467
Capital Facilities	15,870,455	11,624,028
Child Development	12,148	-
Cafeteria	77,840	75,523
Deferred Maintenance	59,358	354,025
Special Reserve (Non Capital)	91,290	68,561
Special Reserve (Capital Outlay)	-	81,143
Combined Non-Major Community Facilities District-Capital Facilities	9,453,663	11,212,715
Bond Interest and Redemption	416,959	62,771
Combined Non-Major Community Facilities District-Debt Service	3,004,483	2,109,406
COP Debt Service	620,677	635,164
Totals	\$ 43,360,083	\$ 41,521,732

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2004

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted in June 2004. (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 42.)

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had \$57,258,198 in a broad range of capital assets, including land, buildings, and furniture and equipment.

(Net of Accumulated Depreciation)	Governmental Activities	
	2004	2003
Land and construction in process	\$ 10,460,885	\$ 7,381,404
Buildings and improvements/site improvements	46,149,217	45,100,424
Equipment	648,096	363,033
Totals	\$ 57,258,198	\$ 52,844,861

Long-term Debt

At the end of this year, the District had \$38,193,927 in long-term debt outstanding versus \$32,104,909 last year. Those long-term debt liabilities consisted of the following:

	Governmental Activities	
	2004	2003
General obligation bonds (Financed with property taxes)	\$ 9,446,303	\$ 9,429,203
Community facilities district	21,165,000	14,895,000
Certificates of participation	7,455,000	7,630,000
Other	127,624	150,706
Totals	\$ 38,193,927	\$ 32,104,909

The District's general obligation bond rating with Fitch is A+, and with S&P it is an A-. The State limits the amount of general obligation debt that District's can issue to 1.25 percent of the assessed value of all taxable property within the District's boundaries. The District's outstanding general obligation debt of \$9,446,303 is significantly below this statutorily-imposed limit.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2004

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2003-2004

Significant Accomplishments:

- Opened a fifth elementary school, Freedom Crest.
- Began construction of a new elementary school, #6.
- Completed construction of a six-classroom wing addition at Callie Kirkpatrick Elementary.
- Added nine new portable-classrooms, five at Callie Kirkpatrick and four at Chester W. Morrison to accommodate growth.
- Completed bond closing of two new CFDs, 2002-3 and 2003-3.
- Acquired three new Certified Natural Gas buses.
- Completed installation of a compressed natural gas fueling station.
- Completed design of modernization projects at Menifee Elementary, Morrison Elementary, Ridgemoor Elementary, and Menifee Valley Middle School.
- Procured a new Food Service accounting/point of sale system, LunchBox.
- Procured a new substitute caller system, CRS, Inc.

FACTORS BEARING ON THE DISTRICT'S FUTURE

Although the budget for 2004-2005 will inevitably be changing, following are some of the key budget assumptions made at time of budget development:

- Average Daily Attendance projected at 6,112, growth of 8 percent.
- Revenue Limit and Categorical COLA estimated at 2.41 percent with a deficit of 2.143 percent applied on the revenue limit resulting in an increase of only .267 percent.
- Staffing based on the following formulas:
 - Kindergarten 20:1
 - 1-2-3 20:1
 - 4-5 30:1
 - Middle School 6-8 30:1
- Negotiations with both bargaining units have not been settled as of this printing.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact Dan Wood, Assistant Superintendent of Business Services, at Menifee Union Elementary School District, 30205 Menifee Road, Menifee CA 92584, or e-mail at dwood@menifeeUSD.k12.ca.us.

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MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

STATEMENT OF NET ASSETS JUNE 30, 2004

	Governmental Activities
Assets	
Deposits and investments	\$ 40,127,419
Receivables	5,558,700
Stores inventories	15,718
Capital assets	
Land and construction in process	10,460,885
Other capital assets	56,247,045
Less: Accumulated depreciation	(9,449,732)
Total Capital Assets	<u>57,258,198</u>
Total Assets	<u>102,960,035</u>
 Liabilities	
Accounts payable	1,729,256
Accrued interest	724,248
Deferred revenue	612,498
Long-term liabilities	
Current portion of long-term obligations	505,000
Noncurrent portion of long-term obligations	37,688,927
Total Long-term Liabilities	<u>38,193,927</u>
Total Liabilities	<u>41,259,929</u>
 Net Assets	
Invested in capital assets, net of related debt	19,191,895
Restricted for:	
Debt service	4,042,119
Capital projects	9,453,663
Educational programs	356,781
Unrestricted	28,655,648
Total Net Assets	<u><u>\$ 61,700,106</u></u>

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

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2004

Functions/Programs	Expenses	Program Revenues	
		Charges for Services and Sales	Operating Grants and Contributions
Governmental Activities:			
Instruction	\$ 23,496,070	\$ 36,186	\$ 4,589,002
Instruction-related activities:			
Supervision of instruction	684,111	-	473,173
Instructional library, media, and technology	520,624	-	36
School site administration	2,552,962	-	-
Pupil services:			
Home-to-school transportation	1,150,282	146,887	209,619
Food services	1,269,604	739,205	501,716
All other pupil services	786,837	-	363,052
General administration:			
Data processing	115,572	-	-
All other general administration	1,908,581	7,600	219,636
Plant services	4,051,930	-	81,141
Facility acquisition and construction	6,317,669	5,555,619	231,203
Interest on long-term debt	2,156,942	-	-
Other outgo	23,299	816,112	44,154
Depreciation (unallocated)	1,217,524	-	-
Total Governmental-Type Activities	\$ 46,252,007	\$ 7,301,609	\$ 6,712,732

General revenues and subventions:

- Property taxes, levied for general purposes
- Property taxes, levied for debt service
- Taxes levied for other specific purposes
- State aid not restricted to specific purposes
- Interest and investment earnings
- Miscellaneous

Subtotal, General Revenues

Excess of Revenues Over Expenses

Net Assets - Beginning-Restated

Net Assets - Ending

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

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

**Governmental
Activities**

\$	(18,870,882)
	(210,938)
	(520,588)
	(2,552,962)
	(793,776)
	(28,683)
	(423,785)
	(115,572)
	(1,681,345)
	(3,970,789)
	(530,847)
	(2,156,942)
	836,967
	(1,217,524)
	<u>(32,237,666)</u>
	4,823,310
	596,942
	697,502
	24,200,877
	332,451
	1,305,859
	<u>31,956,941</u>
	(280,725)
	61,980,831
\$	<u><u>61,700,106</u></u>

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2004**

	General Fund	Building Fund	Capital Facilities Fund
ASSETS			
Deposits and investments	\$ 3,529,711	\$ 7,582,552	\$ 15,284,284
Receivables	4,311,927	25,253	1,127,809
Due from other funds	-	-	-
Stores inventories	-	-	-
Total Assets	\$ 7,841,638	\$ 7,607,805	\$ 16,412,093
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	1,023,627	59,045	541,638
Due to other funds	1,063	-	-
Deferred revenue	612,498	-	-
Total Liabilities	1,637,188	59,045	541,638
FUND BALANCES			
Reserved	359,281	-	-
Unreserved:			
Designated	5,595,305	7,548,760	15,870,455
Undesignated, reported in:			
General Fund	249,864	-	-
Debt service funds	-	-	-
Capital projects funds	-	-	-
Total Fund Balance	6,204,450	7,548,760	15,870,455
Total Liabilities and Fund Balances	\$ 7,841,638	\$ 7,607,805	\$ 16,412,093

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

Non-Major Governmental Funds	Total Governmental Funds
\$ 13,730,872	\$ 40,127,419
93,711	5,558,700
1,063	1,063
15,718	15,718
<u>\$ 13,841,364</u>	<u>\$ 45,702,900</u>
104,946	1,729,256
-	1,063
-	612,498
<u>104,946</u>	<u>2,342,817</u>
15,718	374,999
224,918	29,239,438
-	249,864
4,042,119	4,042,119
9,453,663	9,453,663
<u>13,736,418</u>	<u>43,360,083</u>
<u>\$ 13,841,364</u>	<u>\$ 45,702,900</u>

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MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2004**

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

Total Fund Balance - Governmental Funds	\$ 43,360,083
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	\$66,707,930
Accumulated depreciation is	<u>(9,449,732)</u>
Total Capital Assets	57,258,198
In governmental funds, unmatured interest on long-term debt is recognized in the period when it is due. On the government-wide statements, unmatured interest on long-term debt is recognized when it is incurred.	(724,248)
Long-term liabilities at year end consist of:	
General obligation bonds	9,446,303
Certificates of participation	7,455,000
Special tax revenue bonds	21,165,000
Compensated absences	<u>127,624</u>
Total Long-term Liabilities	(38,193,927)
Total Net Assets - Governmental Activities	<u>\$ 61,700,106</u>

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

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE FOR THE YEAR ENDED JUNE 30, 2004

	General Fund	Building Fund	Capital Facilities Fund
REVENUES			
Revenue limit sources	\$ 25,643,915	\$ -	\$ -
Federal sources	1,545,962	-	-
Other State sources	5,055,138	-	-
Other local sources	2,833,548	112,699	7,221,621
Total Revenues	35,078,563	112,699	7,221,621
EXPENDITURES			
Current			
Instruction	23,304,375	-	-
Instruction-related activities:			
Supervision of instruction	601,058	-	-
Instructional library, media, and technology	520,624	-	-
School site administration	2,552,962	-	-
Pupil services:			
Home-to-school transportation	1,150,282	-	-
Food services	-	-	-
All other pupil services	784,010	-	-
General administration:			
Data processing	115,572	-	-
All other general administration	1,896,973	-	-
Plant services	3,440,425	-	-
Facility acquisition and construction	108,633	2,010,658	2,398,956
Other outgo	8,774	-	-
Debt service			
Principal	23,082	-	-
Interest and other	-	-	3,000
Total Expenditures	34,506,770	2,010,658	2,401,956
Excess (Deficiency) of Revenues Over Expenditures	571,793	(1,897,959)	4,819,665
Other Financing Sources (Uses):			
Transfers in	60,000	-	-
Other sources	-	8,252	-
Transfers out	(287,272)	-	(573,238)
Net Financing Sources (Uses)	(227,272)	8,252	(573,238)
NET CHANGE IN FUND BALANCES	344,521	(1,889,707)	4,246,427
Fund Balance - Beginning	5,859,929	9,438,467	11,624,028
Fund Balance - Ending	\$ 6,204,450	\$ 7,548,760	\$ 15,870,455

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

Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ 25,643,915
474,173	2,020,135
403,503	5,458,641
2,673,557	12,841,425
<u>3,551,233</u>	<u>45,964,116</u>
191,695	23,496,070
83,053	684,111
-	520,624
-	2,552,962
-	1,150,282
1,269,604	1,269,604
2,827	786,837
-	115,572
11,608	1,908,581
611,505	4,051,930
7,431,369	11,949,616
14,525	23,299
235,000	258,082
1,693,447	1,696,447
<u>11,544,633</u>	<u>50,464,017</u>
<u>(7,993,400)</u>	<u>(4,499,901)</u>
2,162,470	2,222,470
6,330,000	6,338,252
(1,361,960)	(2,222,470)
<u>7,130,510</u>	<u>6,338,252</u>
(862,890)	1,838,351
14,599,308	41,521,732
<u>\$ 13,736,418</u>	<u>\$ 43,360,083</u>

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

Major Governmental Funds

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

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

Capital Facilities Fund The Capital Facilities Fund is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act (CEQA).

Other Non-Major Governmental Funds

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

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

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

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

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

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

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

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

Community Facilities District Fund The CFD Debt Service Fund is used to account for the interest and redemption of principal of Special Tax Revenue Bonds.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

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

Special Reserve Fund The Special Reserve Fund is used to account for funds set aside for Board designated construction projects.

Community Facilities District Fund The Community Facilities District Fund accumulate proceeds from bond issuance to be used for acquisition construction of improvement to major capital facilities.

Fiduciary Funds Fiduciary funds reporting focuses on net assets and changes in net assets. The District maintains fiduciary funds that are classified as agency fund.

Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student body activities (ASB).

D. Basis of Accounting - Measurement Focus

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the District and for each governmental program. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Indirect expenses for centralized services and administrative overhead are allocated among the programs, functions, and segments using a full cost allocation approach. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program segment is self-financing or draws from the general revenues of the District.

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

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

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

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

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

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. For the District, available means expected to be received within 60 days of fiscal year-end.

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

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

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

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

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

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. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as part of stores inventory. Principal and interest on general long-term debt, which has not matured, are recognized when paid in the governmental funds. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

E. Cash and Cash Equivalents

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

F. Investments

Investments held at June 30, 2004, 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.

G. Restricted Assets

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

H. Stores Inventory

Inventories consist of expendable food and supplies held for consumption and unused donated commodities. 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.

I. 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 as a whole. 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. 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.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

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/infrastructure, 5 to 50 years; equipment, 2 to 15 years.

J. Interfund Balances

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

K. Compensated Absences

Accumulated unpaid vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide financial statements. 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.

L. 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 a liability on the fund financial statements when due.

M. Fund Balance Reserves and Designations

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

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

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

N. Net Assets

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

O. 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.

P. 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.

Q. 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.

R. Property Tax

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

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

S. New Accounting Pronouncement

For the fiscal year ended June 30, 2004, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, an amendment of GASB Statement No. 14. This statement provides additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government.

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Policies and Practices

The District is considered to be an involuntary participant in an external investment pool since the District is required to deposit all receipts and collections of moneys with their county treasurer (Education Code Section 41001). In addition, the District is authorized to maintain deposits with certain financial institutions that are federally insured up to \$100,000.

The District is also authorized 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.

B. Deposits

At year-end, the carrying amounts of the District's deposits were \$48,806 for government activities and \$30,058 held in fiduciary funds. The bank balances totaled \$132,436, of the bank balance, \$121,109 was covered by Federal Deposit insurance, and \$11,327 was covered by pooled and or pledged collateral, but not necessarily held in the District's name (uncollateralized risk category 3).

C. Investments

The District's investments are categorized to give an indication of the level of risk assumed by the District at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the counterparty's trust department or agent in the District's name holds the securities. Category 3 includes uninsured and unregistered investments for which the securities are held by the financial institution's trust department or agent but not in the District's name. Deposits with the County Treasury are not categorized because they do not represent securities, which exist in physical or book entry form. The deposits with County Treasury are valued using the amortized cost method (which approximates fair value). The fair values were provided by the county for their pools.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

The investments at June 30, 2004, were as follows:

	Reported Amount	Fair Value
Uncategorized:		
First American Government Obligations	\$ 46	\$ 46
First American Treasury Obligations	12,458,146	12,458,146
Bayerische Landesbank	620,631	620,631
Deposits with County Treasurer	26,999,790	26,882,874
Total Investments	<u>\$40,078,613</u>	<u>\$ 39,961,697</u>

NOTE 3 – RECEIVABLES

Receivables at June 30, 2004, consisted of intergovernmental grants, entitlements, interest, and other local sources. All receivables are considered collectible in full.

	General Fund	Building Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal Government					
Categorical aid	\$ 477,450	\$ -	\$ -	\$ 81,711	\$ 559,161
State Government					
Apportionment	2,252,670	-	-	-	2,252,670
Categorical aid	549,559	-	-	4,701	554,260
Lottery	246,880	-	-	-	246,880
Other State	251,008	-	-	-	251,008
Local Government					
Interest	18,112	25,253	43,454	1,141	87,960
Other Local Sources	516,248	-	1,084,355	6,158	1,606,761
Total	<u>\$4,311,927</u>	<u>\$ 25,253</u>	<u>\$1,127,809</u>	<u>\$ 93,711</u>	<u>\$ 5,558,700</u>

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	Restated Balance July 1, 2003	Additions	Deductions	Balance June 30, 2004
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 7,381,404	\$ 297,815	\$ -	\$ 7,679,219
Construction in process	-	2,781,666	-	2,781,666
Total Capital Assets Not Being Depreciated	7,381,404	3,079,481	-	10,460,885
Capital Assets Being Depreciated				
Site improvements	61,036	447,856	-	508,892
Buildings and improvements	51,935,830	1,739,663	-	53,675,493
Furniture and equipment	1,715,082	364,947	17,369	2,062,660
Total Capital Assets Being Depreciated	53,711,948	2,552,466	17,369	56,247,045
Total Capital Assets	61,093,352	5,631,947	17,369	66,707,930
Less Accumulated Depreciation				
Site improvements	298	9,046	-	9,344
Buildings and improvements	6,896,144	1,129,680	-	8,025,824
Furniture and equipment	1,352,049	78,798	16,283	1,414,564
Total Accumulated Depreciation	8,248,491	1,217,524	16,283	9,449,732
Governmental Activities Capital Assets, Net	\$ 52,844,861	\$ 4,414,423	\$ 1,086	\$ 57,258,198

Depreciation expense was charged to governmental functions as follows:

Unallocated	\$ 1,217,524
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NOTE 5 – INTERFUND TRANSACTIONS

A. Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances consist of amounts advanced between funds for various purposes. Interfund receivable and payable balances at June 30, 2004, between major and non-major governmental funds are as follows:

Due To	Due From
	General
Non-Major Governmental	\$ 1,063

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

B. Operating Transfers

Interfund transfers for the year ended June 30, 2004, consisted of the following:

The General Fund transferred to the Cafeteria.	\$ 31,000
The General Fund transferred to the Deferred Maintenance Fund for match.	256,272
Capital Facilities Fund transferred to the COP Debt Service Fund for COP Principal and Interest payments.	573,238
The Special Reserve (Other than Capital Projects) transferred to the General Fund for textbooks.	60,000
Special Reserve (Capital Projects) transferred to the Special Reserve (Other than Capital Projects) to close out the fund.	81,222
CFD 99-1 Zone 1 A & B Debt Service Fund transferred to the CFD 99-1 Zone 1 A & B Capital Projects Fund.	21,486
CFD 99-1 2003 Capital Projects Fund transferred to the CFD 99-1 2003 Debt Service Fund.	588,802
CFD 99-1 2003 Debt Service Fund transferred to the CFD 99-1 2003 Capital Projects Fund.	287,955
CFD 2003-3 Debt Service Fund transferred to the CFD 2003-3 Capital Projects Fund.	251
CFD 2002-1 Debt Service Fund transferred to the CFD 2002-1 Capital Projects Fund.	320,505
CFD 2002-1 Capital Projects Fund transferred to the CFD 2002-1 Debt Service Fund.	687
CFD 2002-3 Debt Service Fund transferred to the CFD 2002-1 Capital Projects Fund.	1,052
Total	<u><u>\$2,222,470</u></u>

NOTE 6 – ACCOUNTS PAYABLE

Accounts payable at June 30, 2004, consisted of the following:

	General Fund	Building Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total Governmental Activities
State apportionment	\$ 467,375	\$ -	\$ -	\$ -	\$ 467,375
Salaries and benefits	250,710	-	7,760	615	259,085
Construction	-	59,045	533,878	71,039	663,962
Other	305,542	-	-	33,292	338,834
Total	<u><u>\$1,023,627</u></u>	<u><u>\$ 59,045</u></u>	<u><u>\$ 541,638</u></u>	<u><u>\$ 104,946</u></u>	<u><u>\$ 1,729,256</u></u>

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 7 – DEFERRED REVENUE

Deferred revenue at June 30, 2004, consists of the following:

	<u>General</u>
Federal financial assistance	\$ 348,451
State categorical aid	264,047
Total	<u>\$ 612,498</u>

NOTE 8 – FUND BALANCES

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

	<u>General Fund</u>	<u>Building Fund</u>	<u>Capital Facilities Fund</u>	<u>Non-Major Governmental Funds</u>
Reserved				
Revolving cash	\$ 2,500	\$ -	\$ -	\$ -
Stores inventory	-	-	-	15,718
Restricted programs	356,781	-	-	-
Total Reserved	<u>359,281</u>	<u>-</u>	<u>-</u>	<u>15,718</u>
Unreserved				
Designated				
Economic uncertainties	2,441,143	-	-	62,122
Other designation	3,154,162	7,548,760	15,870,455	162,796
Total Designated	<u>5,595,305</u>	<u>7,548,760</u>	<u>15,870,455</u>	<u>224,918</u>
Undesignated	249,864	-	-	13,495,782
Total Unreserved	<u>5,845,169</u>	<u>7,548,760</u>	<u>15,870,455</u>	<u>13,720,700</u>
Total	<u>\$ 6,204,450</u>	<u>\$ 7,548,760</u>	<u>\$ 15,870,455</u>	<u>\$ 13,736,418</u>

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 9 – LONG-TERM LIABILITIES

A. Long-Term Debt Summary

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

	Balance Beginning of Year	Additions and Adjustments	Deductions	Balance End of Year	Due in One Year
General obligation bonds	\$ 9,429,203	\$ 17,100	\$ -	\$ 9,446,303	\$ 115,000
Certificates of participation	7,630,000	-	175,000	7,455,000	180,000
Accumulated vacation - net	150,706	-	23,082	127,624	-
Community facilities districts	14,895,000	6,330,000	60,000	21,165,000	210,000
	<u>\$32,104,909</u>	<u>\$ 6,347,100</u>	<u>\$ 258,082</u>	<u>\$38,193,927</u>	<u>\$ 505,000</u>

B. General Obligation Bond

In June 2003, the District issued current and appreciation bonds, 2002 Election General Obligation Bond, Series A, in the amount of \$9,429,203 (accreting to \$17,794,734) in order to raise money for modernization, reconstruction, and new construction. The Bonds have a maturity date of August 1, 2027, with interest rates varying from 2.37 to 7.40 percent. At June 30, 2004, 2002 Election General Obligation Bond, Series A totaled \$9,446,303. The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding Beginning of Year	Accreted Interest Addition	Bonds Outstanding End of Year	Due in One Year
2002-2003	2027-2028	2.37-7.40%	\$ 9,429,203	\$ 9,429,203	\$ 17,100	\$ 9,446,303	\$ 115,000

C. Debt Service Requirements to Maturity

Fiscal Year	Prinicipal Including Accreted Interest to Date	Accreted Interest	Current Interest to Maturity	Total 2002 Series A
2005	\$ 115,000	\$ 27,581	\$ 395,083	\$ 537,664
2006	150,000	29,657	391,936	571,593
2007	175,000	31,890	388,077	594,967
2008	-	34,291	385,999	420,290
2009	-	36,874	385,999	422,873
2010-2014	375,000	230,437	1,911,069	2,516,506
2015-2019	1,091,303	92,968	1,840,356	3,024,627
2020-2024	3,150,000	-	1,437,563	4,587,563
2025-2029	4,390,000	-	467,656	4,857,656
Total	<u>\$ 9,446,303</u>	<u>\$ 483,698</u>	<u>\$ 7,603,738</u>	<u>\$ 17,533,739</u>

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

D. Certificates of Participation

On October 1, 1996, the Meniffee Union Elementary School District, through the Riverside County Schools Financing Corporation, issued certificates of participation in the amount of \$8,235,000 with interest rates ranging from 5 percent to 6.125 percent. At June 30, 2004, the principal balance outstanding was \$7,455,000. The certificates mature through 2027 as follows:

Year Ending June 30,	Principal	Interest	Total
2005	\$ 180,000	\$ 431,049	\$ 611,049
2006	190,000	420,813	610,813
2007	205,000	409,826	614,826
2008	215,000	398,078	613,078
2009	225,000	685,629	910,629
2010-2014	1,350,000	1,708,436	3,058,436
2015-2019	1,790,000	1,248,703	3,038,703
2020-2024	2,390,000	635,375	3,025,375
2025-2027	910,000	46,450	956,450
Total	<u>\$ 7,455,000</u>	<u>\$ 5,984,359</u>	<u>\$ 13,439,359</u>

E. Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2004, amounted to \$127,624.

F. Community Facilities District 99-1, Zone 1, Series A

On August 1, 2000, the Community Facilities District No.99-1 of the Meniffee Union School District issued Series A of the Zone 1 Special Tax Bonds in the amount of 2,585,000 with interest rates ranging from 4.6 to 6.875 percent. At June 30, 2004, the principal outstanding balance was \$2,485,000. The bonds mature through 2032 as follows:

Year Ending June 30,	Principal	Interest	Total
2005	\$ 40,000	\$ 165,365	\$ 205,365
2006	40,000	163,255	203,255
2007	40,000	161,085	201,085
2008	45,000	158,725	203,725
2009	45,000	156,183	201,183
2010-2014	275,000	734,625	1,009,625
2015-2019	375,000	626,484	1,001,484
2020-2024	525,000	473,172	998,172
2025-2029	730,000	258,844	988,844
2030-2032	370,000	25,781	395,781
Total	<u>\$ 2,485,000</u>	<u>\$ 2,923,519</u>	<u>\$ 5,408,519</u>

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

G. Community Facilities District 99-1, Zone 1, Series B

On July 10, 2001, the Community Facilities District No.99-1 of the Menifee Union School District issued Series B of the Zone 1 Special Tax Bonds in the amount of \$1,930,000 with interest rates ranging from 4.0 to 6.4 percent. At June 30, 2004, the principal outstanding balance was \$1,895,000. The bonds mature through 2032 as follows:

Year Ending June 30,	Principal	Interest	Total
2005	\$ 25,000	\$ 115,845	\$ 140,845
2006	25,000	114,689	139,689
2007	30,000	113,360	143,360
2008	30,000	111,874	141,874
2009	35,000	110,215	145,215
2010-2014	180,000	523,720	703,720
2015-2019	245,000	462,058	707,058
2020-2024	330,000	373,625	703,625
2025-2029	450,000	250,880	700,880
2030-2032	545,000	66,400	611,400
Total	<u>\$ 1,895,000</u>	<u>\$ 2,242,666</u>	<u>\$ 4,137,666</u>

H. Community Facilities District 99-1, Zone 2

On April 1, 2003, the Community Facilities District No.99-1 of the Menifee Union School District issued Zone 2 of the Zone 1 Special Tax Bonds 2003 in the amount of \$4,990,000 with interest rates ranging from 2.75 to 6.3 percent. At June 30, 2004, the principal outstanding balance was \$4,990,000. The bonds mature through 2033 as follows:

Year Ending June 30,	Principal	Interest	Total
2005	\$ 75,000	\$ 286,924	\$ 361,924
2006	80,000	284,693	364,693
2007	80,000	282,192	362,192
2008	85,000	279,341	364,341
2009	85,000	276,090	361,090
2010-2014	485,000	1,317,755	1,802,755
2015-2019	630,000	1,171,630	1,801,630
2020-2024	830,000	960,273	1,790,273
2025-2029	1,120,000	662,175	1,782,175
2030-2033	1,520,000	250,425	1,770,425
Total	<u>\$ 4,990,000</u>	<u>\$ 5,771,498</u>	<u>\$ 10,761,498</u>

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

I. Community Facilities District No. 99-1, Improvement Area A

On May 22, 2003, the Community Facilities District No. 99-1 of the Meniffee Union School District issued Improvement Area A Special Tax Bonds in the amount of \$875,000 with interest rates ranging from 2.75 to 6.3 percent. At June 30, 2004, the principal outstanding was \$875,000. The Bond matures through 2033 as follows:

Year Ending June 30,	Principal	Interest	Total
2005	\$ 15,000	\$ 50,194	\$ 65,194
2006	15,000	49,763	64,763
2007	15,000	49,294	64,294
2008	15,000	48,776	63,776
2009	15,000	48,203	63,203
2010-2014	85,000	230,393	315,393
2015-2019	110,000	204,590	314,590
2020-2024	145,000	167,954	312,954
2025-2029	195,000	115,605	310,605
2030-2033	265,000	43,943	308,943
Total	<u>\$ 875,000</u>	<u>\$ 1,008,715</u>	<u>\$ 1,883,715</u>

J. Community Facilities District No. 2002-1

On October 1, 2002, the Community Facilities District No. 2002-1 of the Meniffee Union School District issued Special Tax Bonds in the amount of \$4,590,000 with interest rates ranging from 2.6 to 6.4 percent. At June 30, 2004, the principal outstanding balance was \$4,590,000. The bonds mature through 2034 as follows:

Year Ending June 30,	Principal	Interest	Total
2005	\$ 55,000	\$ 276,367	\$ 331,367
2006	60,000	274,693	334,693
2007	65,000	272,523	337,523
2008	70,000	269,792	339,792
2009	70,000	266,650	336,650
2010-2014	405,000	1,275,358	1,680,358
2015-2019	530,000	1,144,381	1,674,381
2020-2024	715,000	954,914	1,669,914
2025-2029	970,000	637,679	1,607,679
2030-2033	1,330,000	368,000	1,698,000
2034	320,000	20,480	340,480
Total	<u>\$ 4,590,000</u>	<u>\$ 5,760,837</u>	<u>\$ 10,350,837</u>

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

K. Community Facilities District No. 2002-3

On July 10, 2003, the Community Facilities District No. 2002-3 of the Menifee Union School District issued Special Tax Bonds in the amount of \$3,885,000 with interest rates ranging from 2.40 to 5.9 percent. At June 30, 2004, the principal outstanding was \$3,885,000. The Bond matures through 2033 as follows:

Year Ending June 30,	Principal	Interest	Total
2005	\$ -	\$ 211,788	\$ 211,788
2006	65,000	211,008	276,008
2007	65,000	209,253	274,253
2008	70,000	207,053	277,053
2009	70,000	204,428	274,428
2010-2014	405,000	971,888	1,376,888
2015-2019	500,000	860,513	1,360,513
2020-2024	665,000	702,581	1,367,581
2025-2029	875,000	479,760	1,354,760
2030-2033	1,170,000	179,947	1,349,947
Total	<u>\$ 3,885,000</u>	<u>\$ 4,238,219</u>	<u>\$ 8,123,219</u>

L. Community Facilities District No. 2003-3

On October 28, 2003, the Community Facilities District No. 2003-3 of the Menifee Union School District issued Special Tax Bonds in the amount of \$2,445,000 with interest rates ranging from 2.0 to 6.0 percent. At June 30, 2004, the principal outstanding balance was \$2,445,000. The bonds mature through 2033 as follows:

Year Ending June 30,	Principal	Interest	Total
2005	\$ -	\$ 131,144	\$ 131,144
2006	45,000	130,694	175,694
2007	45,000	129,749	174,749
2008	45,000	128,635	173,635
2009	45,000	127,319	172,319
2010-2014	250,000	609,449	859,449
2015-2019	315,000	543,531	858,531
2020-2024	410,000	444,786	854,786
2025-2029	555,000	305,553	860,553
2030-2033	735,000	115,350	850,350
Total	<u>\$ 2,445,000</u>	<u>\$ 2,666,210</u>	<u>\$ 5,111,210</u>

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

NOTE 10 – RISK MANAGEMENT

The District's risk management activities are recorded in the General Fund. Employee life, health, and disability programs are administered by the General Fund through the purchase of commercial insurance. The District participates in the Western Riverside County Self-Insurance Program for Employees public entity risk pools for the workers' compensation programs and purchases excess liability coverage through the JPA. Refer to Note 13 for additional information regarding the JPAs. The Property and Liability Program, for which the District retains risk of loss, is covered through the District's participation in the Riverside Schools Insurance Authority.

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

NOTE 11 – EMPLOYEE RETIREMENT SYSTEMS

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

A. STRS

Plan Description

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

Funding Policy

Active plan members are required to contribute 8.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by STRS Teachers' Retirement Board. The required employer contribution rate for fiscal 2003-2004 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to STRS for the fiscal year ending June 30, 2004, 2003, and 2002 were \$1,514,588, \$1,413,678, and \$1,265,101, respectively, and equal 100 percent of the required contributions for each year.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

B. PERS

Plan Description

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

Funding Policy

Active plan members are required to contribute 7.0 percent of their and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal 2003-2004 was 10.42 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal year ending June 30, 2004, 2003, and 2002 were \$439,865, \$101,028, and \$-0-, respectively, and equal 100 percent of the required contributions for each year.

C. On Behalf Payments

The State of California makes contributions to STRS and PERS on behalf of the District. These payments consist of State General Fund contributions to STRS in the amount of \$425,494 (2.280 percent of salaries subject to STRS). No contributions were made for PERS for the year ended June 30, 2004. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures, however, guidance received from the California Department of Education advises local educational agencies not to record these amounts in the Annual Financial and Budget Report. These amounts have not been recorded in these financial statements.

NOTE – 12 COMMITMENTS AND CONTINGENCIES

A. Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the district at June 30, 2004.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

B. 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, 2004.

C. Construction Commitments

As of June 30, 2004, the District had the following commitments with respect to the unfinished capital projects:

CAPITAL PROJECT	Remaining Construction Commitment	Expected Date of Completion
Elementary #6	\$ 7,624,077	07/01/05
Meniffee Elementary	2,910,196	09/01/05
Morrison Elementary	1,116,661	09/01/05
Meniffee Valley Middle School	258,891	09/01/05
Ridgemoor Elementary	46,517	10/01/04
	<u>\$ 11,956,342</u>	

NOTE 13 – PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWERS AUTHORITIES

The District is a member of the Western Riverside County Self-Insurance Program for Employees (WRCSIPE), the Self-Insured Schools of California III (SISC III), and the Riverside Schools Insurance Authority (RSIA) public entity risk pool. The District pays an annual premium to the entities for its workers' compensation coverage, health and welfare benefits, and property and liability coverage. The relationships between the District, the pools, and the JPA are such that they are not a component unit 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 entity and the District are included in these statements. Audited financial statements are available from the respective entities.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

A. <u>Entity</u>	<u>WRCSIPE</u>	<u>SISC III</u>	<u>RSIA</u>
B. <u>Purpose</u>	To provide a self-insurance program for workers' compensation	To provide health and welfare benefits for employees	To provide property and liability coverage
C. <u>Participants</u>	Various school districts with Riverside County	Various districts in California	Various school districts with Riverside County
D. <u>Governing Board</u>	Elected by participating districts	Elected by participating districts	Elected by participating districts
E. <u>Condensed Audited Financial Information Follows</u>			
	<u>WRCSIPE</u>	<u>SISC III</u>	<u>RSIA</u>
	June 30, 2003*	September 30, 2003*	June 30, 2003*
Assets	\$ 2,489,025	\$ 58,227,156	\$ 5,813,163
Liabilities	3,284,751	55,936,120	3,998,601
Fund Equity	\$ (795,726)	\$ 2,291,036	\$ 1,814,562
Revenues	504,758	459,179,220	5,423,832
Expenses	2,874,288	434,134,122	5,941,342
Net Increase/(Decrease) in Fund Equity	\$ (2,369,530)	\$ 25,045,098	\$ (517,510)
F. <u>Payments for the Current Year</u>	<u>\$ 704,632</u>	<u>\$ 2,835,382</u>	<u>\$ 158,741</u>

* Most recent information available.

None of the JPA's recorded long-term debts outstanding at June 30, 2003 and September 30, 2003. The District's share of year-end assets, liabilities, or fund equity has not been calculated.

NOTE 14 – TAX AND REVENUE ANTICIPATION NOTES

On July 3, 2003, the District issued \$2,030,000 Tax and Revenue Anticipation Notes bearing interest of 2.0 percent. Interest and principal were due and payable on July 3, 2004. By May 31, 2004, the District had placed 100 percent of the principal and interest in an irrevocable trust for the sole purpose of satisfying the notes. The District is not required to make any additional payments on the notes. As the District has in substance defeased the debt, the tax anticipation notes of \$2,030,000 and related accrued interest and cash held in trust are not included in these financial statements.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 15 – SUBSEQUENT EVENTS

In July 29, 2004, the District issued \$8,250,000 of Special Revenue Tax Bonds from Community Facilities District No. 2002-2. The Special Revenue Bonds will be repaid solely through property taxes levied and collected by the County of Riverside. The bonds were sold to finance the new construction and modernization of school sites throughout the District.

NOTE 16 – RESTATEMENT

During the 2003-2004 fiscal year, the District converted to a new capital asset inventory system. During the conversion process the District noted various differences in the capital asset carrying values. Adjustments to correct these differences were made by the District as noted below.

	Balance July 1, 2003	Adjustments	Restated Balance July 1, 2003
Governmental Activities			
Capital Assets Not Being Depreciated			
Land	\$ 7,801,404	\$ (420,000)	\$ 7,381,404
Total Capital Assets Not Being Depreciated	<u>7,801,404</u>	<u>(420,000)</u>	<u>7,381,404</u>
Capital Assets Being Depreciated			
Site improvements	34,066	26,970	61,036
Buildings and improvements	46,730,863	5,204,967	51,935,830
Furniture and equipment	1,735,464	(20,382)	1,715,082
Total Capital Assets Being Depreciated	<u>48,500,393</u>	<u>5,211,555</u>	<u>53,711,948</u>
Total Capital Assets	<u>56,301,797</u>	<u>4,791,555</u>	<u>61,093,352</u>
Less Accumulated Depreciation			
Site improvements	1,703	(1,405)	298
Buildings and improvements	6,703,860	192,284	6,896,144
Furniture and equipment	1,370,223	(18,174)	1,352,049
Total Accumulated Depreciation	<u>8,075,786</u>	<u>172,705</u>	<u>8,248,491</u>
Governmental Activities Capital Assets, Net	<u>\$ 48,226,011</u>	<u>\$ 4,618,850</u>	<u>\$ 52,844,861</u>

REQUIRED SUPPLEMENTARY INFORMATION

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MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2004**

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative) Final to Actual
	(GAAP Basis)			
	Original	Final		
REVENUES				
Revenue limit sources	\$ 24,587,353	\$ 25,608,453	\$ 25,643,915	\$ (35,462)
Federal sources	926,601	1,902,336	1,545,962	356,374
Other State sources	4,180,129	4,923,316	5,055,138	(131,822)
Other local sources	2,405,227	2,574,524	2,833,548	(259,024)
Total Revenues	32,099,310	35,008,629	35,078,563	(69,934)
EXPENDITURES				
Current				
Instruction	21,776,762	24,694,882	23,304,375	1,390,507
Instruction-related activities:				
Supervision of instruction	622,304	638,005	601,058	36,947
Instructional library, media, and technology	554,226	605,376	520,624	84,752
School site administration	2,445,983	2,605,112	2,552,962	52,150
Pupil services:				
Home-to-school transportation	1,153,960	1,166,905	1,150,282	16,623
All other pupil services	726,606	829,571	784,010	45,561
General administration:				
Data processing	127,000	202,554	115,572	86,982
All other general administration	1,837,147	2,126,497	1,896,973	229,524
Plant services	3,863,855	3,999,777	3,440,425	559,352
Facility acquisition and construction	-	176,452	108,633	67,819
Other outgo	-	8,774	8,774	-
Debt service				
Principal	-	23,082	23,082	-
Total Expenditures	33,107,843	37,076,987	34,506,770	2,570,217
Excess (Deficiency) of Revenues				
Over Expenditures	(1,008,533)	(2,068,358)	571,793	(2,640,151)
Other Financing Sources (Uses):				
Transfers in	-	60,000	60,000	-
Transfers out	(105,000)	(287,272)	(287,272)	-
Net Financing Sources (Uses)	(105,000)	(227,272)	(227,272)	-
NET CHANGE IN FUND BALANCES	(1,113,533)	(2,295,630)	344,521	(2,640,151)
Fund Balance - Beginning	5,859,929	5,859,929	5,859,929	-
Fund Balance - Ending	\$ 4,746,396	\$ 3,564,299	\$ 6,204,450	\$ (2,640,151)

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

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SUPPLEMENTARY INFORMATION

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MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004**

Federal Grantor/Pass-Through Grantor/Program	Federal Catalog Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Drug-Free Schools	84.186A	13340	\$ 19,941
Title I	84.010	3453	272,408
Title II - Improving Teacher Quality	84.367	04341	91,670
Title II - Technology Part D	84.318	13207	10,983
Title III	84.365	04346	64,809
Title V	84.298	04135	11,886
Federal Technology Grant [1]	84.352A	[2]	464,000
Special Education			
Local Assistance	84.027	24314	498,346
Preschool Local Assistance	84.027	03682	38,630
Preschool Local Entitlements	84.027	8682	56,997
Low Incidence	84.027	03459	15,054
Personnel Staff Development	84.027	03613	1,238
Total U.S. Department of Education			<u>1,545,962</u>
U.S. DEPARTMENT OF AGRICULTURE			
National School Lunch Program [1]	10.555	3396	435,973
Especially Needy Breakfast [1]	10.553	3390	38,119
Basic Breakfast [1]	10.553	3390	81
Total U.S. Department of Agriculture			<u>474,173</u>
Total Expenditures of Federal Awards			<u>\$ 2,020,135</u>

[1] Tested as a major program.

[2] Pass-Through Entity Identifying Number not available.

See accompanying note to supplementary information.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2004**

	<u>Second Period Report</u>	<u>Annual Report</u>
ELEMENTARY		
Kindergarten	533	542
First through third	1,784	1,806
Fourth through sixth	1,913	1,934
Seventh and eighth	1,328	1,334
Opportunity schools	10	12
Home and hospital	1	2
Special education	106	110
Total Elementary	<u>5,675</u>	<u>5,740</u>
 SUMMER SCHOOL HOURS		
Elementary		<u>46,052</u>

See accompanying note to supplementary information.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2004**

Grade Level	1982-83	1986-87	2003-04	Number of Days	Status
	Actual Minutes	Minutes Requirement	Actual Minutes	Multitrack Calendar	
Kindergarten	31,500	36,000	38,055	177	Complied
Grades 1 - 3	50,750	50,400	52,422	177	Complied
Grades 4 - 6	50,750	54,000	54,173	177	Complied
Grades 7 - 8	50,750	54,000	55,803	177	Complied

See accompanying note to supplementary information.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2004**

	Special Revenue Funds			
	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Special Reserve Non-Capital Fund
ASSETS				
Deposits and investments	\$ 13,327	\$ 1,079	\$ 129,679	\$ 91,005
Receivables	374	92,334	718	285
Due from other funds	1,063	-	-	-
Stores inventories	-	15,718	-	-
Total Assets	\$ 14,764	\$ 109,131	\$ 130,397	\$ 91,290
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	2,616	31,291	71,039	-
Total Liabilities	2,616	31,291	71,039	-
Fund Balances:				
Reserved for:				
Stores inventories	-	15,718	-	-
Unreserved:				
Designated	12,148	62,122	59,358	91,290
Undesignated, reported in:				
Debt service funds	-	-	-	-
Capital projects funds	-	-	-	-
Total Fund Balances	12,148	77,840	59,358	91,290
Total Liabilities and Fund Balances	\$ 14,764	\$ 109,131	\$ 130,397	\$ 91,290

See accompanying note to supplementary information.

Capital Projects Funds		Debt Service Funds			
Special Reserve Capital Outlay Fund	Combined Non-Major Community Facilities District Fund	Bond Interest and Redemption Fund	Combined Non-Major Community Facilities District Fund	COP Debt Service Fund	Non-Major Governmental Funds
\$ -	\$ 9,453,663	\$ 416,959	\$ 3,004,483	\$ 620,677	\$ 13,730,872
-	-	-	-	-	93,711
-	-	-	-	-	1,063
-	-	-	-	-	15,718
<u>\$ -</u>	<u>\$ 9,453,663</u>	<u>\$ 416,959</u>	<u>\$ 3,004,483</u>	<u>\$ 620,677</u>	<u>\$ 13,841,364</u>
-	-	-	-	-	104,946
-	-	-	-	-	104,946
-	-	-	-	-	15,718
-	-	-	-	-	224,918
-	-	416,959	3,004,483	620,677	4,042,119
-	9,453,663	-	-	-	9,453,663
-	9,453,663	416,959	3,004,483	620,677	13,736,418
<u>\$ -</u>	<u>\$ 9,453,663</u>	<u>\$ 416,959</u>	<u>\$ 3,004,483</u>	<u>\$ 620,677</u>	<u>\$ 13,841,364</u>

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2004**

	<u>Special Revenue Funds</u>			
	<u>Child Development Fund</u>	<u>Cafeteria Fund</u>	<u>Deferred Maintenance Fund</u>	<u>Special Reserve Non-Capital Fund</u>
REVENUES				
Federal sources	\$ -	\$ 474,173	\$ -	\$ -
Other State sources	300,928	27,247	57,725	-
Other local sources	403	739,501	2,841	1,508
Total Revenues	<u>301,331</u>	<u>1,240,921</u>	<u>60,566</u>	<u>1,508</u>
EXPENDITURES				
Current				
Instruction	191,695	-	-	-
Instruction-related activities:				
Supervision of instruction	83,053	-	-	-
Pupil services:				
Food services	-	1,269,604	-	-
All other pupil services	2,827	-	-	-
General administration:				
All other general administration	11,608	-	-	-
Plant services	-	-	611,505	-
Facility acquisition and construction	-	-	-	-
Other outgo	-	-	-	-
Debt service				
Principal	-	-	-	-
Interest and other	-	-	-	-
Total Expenditures	<u>289,183</u>	<u>1,269,604</u>	<u>611,505</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>12,148</u>	<u>(28,683)</u>	<u>(550,939)</u>	<u>1,508</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	-	31,000	256,272	81,221
Other sources	-	-	-	-
Transfers out	-	-	-	(60,000)
Net Other Financing Sources (Uses)	<u>-</u>	<u>31,000</u>	<u>256,272</u>	<u>21,221</u>
NET CHANGE IN FUND BALANCES	<u>12,148</u>	<u>2,317</u>	<u>(294,667)</u>	<u>22,729</u>
Fund Balance - Beginning	-	75,523	354,025	68,561
Fund Balance - Ending	<u>\$ 12,148</u>	<u>\$ 77,840</u>	<u>\$ 59,358</u>	<u>\$ 91,290</u>

See accompanying note to supplementary information.

Capital Projects Funds		Debt Service Funds			
Special Reserve Capital Outlay Fund	Combined Non-Major Community Facilities District Fund	Bond Interest and Redemption Fund	Combined Non-Major Community Facilities District Fund	COP Debt Service Fund	Non-Major Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 474,173
-	-	17,603	-	-	403,503
78	85,192	597,580	1,203,916	42,538	2,673,557
78	85,192	615,183	1,203,916	42,538	3,551,233
-	-	-	-	-	191,695
-	-	-	-	-	83,053
-	-	-	-	-	1,269,604
-	-	-	-	-	2,827
-	-	-	-	-	11,608
-	-	-	-	-	611,505
-	7,420,330	-	11,039	-	7,431,369
-	-	-	-	14,525	14,525
-	-	-	60,000	175,000	235,000
-	-	260,995	991,714	440,738	1,693,447
-	7,420,330	260,995	1,062,753	630,263	11,544,633
78	(7,335,138)	354,188	141,163	(587,725)	(7,993,400)
-	631,250	-	589,489	573,238	2,162,470
-	5,534,325	-	795,675	-	6,330,000
(81,221)	(589,489)	-	(631,250)	-	(1,361,960)
(81,221)	5,576,086	-	753,914	573,238	7,130,510
(81,143)	(1,759,052)	354,188	895,077	(14,487)	(862,890)
81,143	11,212,715	62,771	2,109,406	635,164	14,599,308
\$ -	\$ 9,453,663	\$ 416,959	\$ 3,004,483	\$ 620,677	\$ 13,736,418

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**COMMUNITY FACILITIES DISTRICT
NON-MAJOR CAPITAL FACILITIES FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2004**

	CFD 99-1 Zone 1 A&B Fund	CFD 99-1 2003 Series Fund	CFD 2002-1 2002 Series Fund
ASSETS			
Deposits and investments	<u>\$ 2,178,672</u>	<u>\$ 3,111,254</u>	<u>\$ 2,433,045</u>
Fund Balances:			
Undesignated, reported in:			
Capital projects funds	<u>2,178,672</u>	<u>3,111,254</u>	<u>2,433,045</u>
Total Fund Balances	<u><u>\$ 2,178,672</u></u>	<u><u>\$ 3,111,254</u></u>	<u><u>\$ 2,433,045</u></u>

See accompanying note to supplementary information.

CFD 2002-3 2003 Series Fund	CFD 2003-3 2003 Series Fund	Non-Major- CFD Governmental Funds
<u>\$ 1,610,243</u>	<u>\$ 120,449</u>	<u>\$ 9,453,663</u>
1,610,243	120,449	9,453,663
<u>\$ 1,610,243</u>	<u>\$ 120,449</u>	<u>\$ 9,453,663</u>

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**COMMUNITY FACILITIES DISTRICT
NON-MAJOR CAPITAL FACILITIES FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2004**

	CFD 99-1 Zone 1 A&B Fund	CFD 99-1 2003 Series Fund	CFD 2002-1 2002 Series Fund
REVENUES			
Other local sources	\$ 15,504	\$ 26,896	\$ 21,130
Total Revenues	<u>15,504</u>	<u>26,896</u>	<u>21,130</u>
EXPENDITURES			
Current			
Facility acquisition and construction	646,054	1,565,705	1,381,973
Total Expenditures	<u>646,054</u>	<u>1,565,705</u>	<u>1,381,973</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(630,550)</u>	<u>(1,538,809)</u>	<u>(1,360,843)</u>
OTHER FINANCING SOURCES (USES):			
Transfers in	21,487	287,955	320,505
Other sources	-	-	-
Transfers out	-	(588,802)	(687)
Net Other Financing Sources (Uses)	<u>21,487</u>	<u>(300,847)</u>	<u>319,818</u>
NET CHANGE IN FUND BALANCES	<u>(609,063)</u>	<u>(1,839,656)</u>	<u>(1,041,025)</u>
Fund Balance - Beginning	2,787,735	4,950,910	3,474,070
Fund Balance - Ending	<u>\$ 2,178,672</u>	<u>\$ 3,111,254</u>	<u>\$ 2,433,045</u>

See accompanying note to supplementary information.

CFD 2002-3 2003 Series Fund	CFD 2003-3 2003 Series Fund	Non-Major-CFD Governmental Funds
\$ 14,645	\$ 7,017	\$ 85,192
14,645	7,017	85,192
1,776,426	2,050,172	7,420,330
1,776,426	2,050,172	7,420,330
(1,761,781)	(2,043,155)	(7,335,138)
1,052	251	631,250
3,370,972	2,163,353	5,534,325
-	-	(589,489)
3,372,024	2,163,604	5,576,086
1,610,243	120,449	(1,759,052)
-	-	11,212,715
\$ 1,610,243	\$ 120,449	\$ 9,453,663

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**COMMUNITY FACILITIES DISTRICT
NON-MAJOR DEBT SERVICE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2004**

	CFD 99-1 Zone 1 A&B Fund	CFD 2002-3 2003 Series Fund	CFD 2003-3 2003 Series Fund
ASSETS			
Deposits and investments	<u>\$ 592,069</u>	<u>\$ 602,154</u>	<u>\$ 242,911</u>
Fund Balances:			
Undesignated, reported in:			
Debt service funds	592,069	602,154	242,911
Total Fund Balances	<u>\$ 592,069</u>	<u>\$ 602,154</u>	<u>\$ 242,911</u>

See accompanying note to supplementary information.

CFD 2002-1 2002 Series Fund	CFD 99-1 2003 Series Fund	Non-Major- CFD Governmental Funds
\$ 571,663	\$ 995,686	\$ 3,004,483

571,663	995,686	3,004,483
\$ 571,663	\$ 995,686	\$ 3,004,483

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**COMMUNITY FACILITIES DISTRICT
NON-MAJOR DEBT SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2004**

	CFD 99-1 Zone 1 A&B Fund	CFD 2002-3 2003 Series Fund	CFD 2003-3 2003 Series Fund	CFD 2002-1 2002 Series Fund
REVENUES				
Other local sources	\$ 397,494	\$ 218,017	\$ 859	\$ 368,151
Total Revenues	<u>397,494</u>	<u>218,017</u>	<u>859</u>	<u>368,151</u>
EXPENDITURES				
Current				
Facility acquisition and construction	-	-	-	11,039
Debt service				
Principal	60,000	-	-	-
Interest and other	284,219	128,840	39,343	277,084
Total Expenditures	<u>344,219</u>	<u>128,840</u>	<u>39,343</u>	<u>288,123</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>53,275</u>	<u>89,177</u>	<u>(38,484)</u>	<u>80,028</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	-	687
Other sources	-	514,029	281,646	-
Transfers out	(21,486)	(1,052)	(251)	(320,506)
Net Other Financing Sources (Uses)	<u>(21,486)</u>	<u>512,977</u>	<u>281,395</u>	<u>(319,819)</u>
NET CHANGE IN FUND BALANCES	<u>31,789</u>	<u>602,154</u>	<u>242,911</u>	<u>(239,791)</u>
Fund Balance - Beginning	560,280	-	-	811,454
Fund Balance - Ending	<u>\$ 592,069</u>	<u>\$ 602,154</u>	<u>\$ 242,911</u>	<u>\$ 571,663</u>

See accompanying note to supplementary information.

CFD 99-1 2003 Series Fund	Non-Major-CFD Governmental Funds
\$ 219,395	\$ 1,203,916
<u>219,395</u>	<u>1,203,916</u>
-	11,039
-	60,000
262,228	991,714
<u>262,228</u>	<u>1,062,753</u>
<u>(42,833)</u>	<u>141,163</u>
588,802	589,489
-	795,675
<u>(287,955)</u>	<u>(631,250)</u>
300,847	753,914
258,014	895,077
737,672	2,109,406
<u>\$ 995,686</u>	<u>\$ 3,004,483</u>

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2004

NOTE 1 – PURPOSE OF SCHEDULES

A. Schedule of Expenditures of Federal Awards

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

B. 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 apportionment's 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.

C. Schedule of Instructional Time

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

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

D. 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.

E. Schedule of Financial Trends and Analysis

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

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2004**

F. Combining Statements

These statements provide information on the District's non-major funds.

G. Community Facilities District Combining Statements

These statements provide detail information on each non-major Community Facilities District funds. These funds are reported here in detail and reported in a condensed form in the combining statements. Each fund was evaluated individually to determine if they met the criteria to be included in the major-fund reporting section of this report. If any of these funds had met this criteria they would be reported there, if not they are included in the combining statements of non-major Community Facilities Districts, Capital Projects, and Debt Service Funds.

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INDEPENDENT AUDITORS' REPORTS

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

Governing Board
Menifee Union Elementary School District
Menifee, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Menifee Union Elementary School District (the District), as of and for the year ended June 30, 2004, and have issued our report thereon dated September 17, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Menifee Union Elementary School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Menifee Union Elementary School District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Financial Statement Findings as items list the reference numbers of the related findings, 2004-1 to 2004-2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 2004-1 to be a material weakness. We also noted other matters involving the internal control over financial reporting that we have reported to the management of the Menifee Union Elementary School District in a separate letter dated September 17, 2004.

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INDEPENDENT AUDITORS' REPORTS

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

Governing Board
Menifee Union Elementary School District
Menifee, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Menifee Union Elementary School District (the District), as of and for the year ended June 30, 2004, and have issued our report thereon dated September 17, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Menifee Union Elementary School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Menifee Union Elementary School District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Financial Statement Findings as items list the reference numbers of the related findings, 2004-1 to 2004-2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 2004-1 to be a material weakness. We also noted other matters involving the internal control over financial reporting that we have reported to the management of the Menifee Union Elementary School District in a separate letter dated September 17, 2004.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Menifee Union Elementary School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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

Varrault, Tunc, Day & Co., LLP

Rancho Cucamonga, California
September 17, 2004



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

Governing Board
Menifee Union Elementary School District
Menifee, California

Compliance

We have audited the compliance of the Menifee Union Elementary School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2004. The Menifee Union Elementary School District's major Federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of the Menifee Union Elementary School District's management. Our responsibility is to express an opinion on the Menifee Union Elementary School District's compliance based on our audit.

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

In our opinion, the Menifee Union Elementary School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of the Menifee Union Elementary School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered the Menifee Union Elementary School District's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

Varembak, Trina, Day & Co., LLP

Rancho Cucamonga, California
September 17, 2004

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2004**

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

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

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>Child Nutrition Cluster</u>	<u>10.555,10.553</u>
<u>Federal Technology Grant</u>	<u>84.352A</u>
<u> </u>	<u> </u>
<u> </u>	<u> </u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

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

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2004

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

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

CAPITAL ASSETS – MATERIAL WEAKNESS

District

2004-1 30000

Finding

The District has not accounted for the additions and deletions within the fixed asset system during the year. During the year, the District switched to a County run fixed assets system; during this transition it was noted that many items within the fixed asset system were either improperly recorded or assets lives were not properly stated. Furthermore, it was noted during testing of the fixed asset system that the District is including items under the Board approved \$5,000 capitalization threshold. Due to the conversion, several errors were noted that resulted a restatement of balance beginning balance to the fixed assets at June 30, 2004.

Recommendation

The District should implement a process that insures that all capital assets of the District have been properly recorded on the Districts fixed asset ledger. The District should develop polices and procedures to verify that all accounts have been reconciled at year-end.

District Response

The District will tighten its internal procedures to track capital assets to eliminate improper coding or lives of assets; care will be taken to avoid including assets under \$5,000.

CAPITAL ASSETS

Community Facilities District Disbursements

2004-2 30000

Finding

We noted, when testing the internal control procedures of the Community Facility Districts internal control procedures, several transactions lacked approval of the Assistant Superintendent of Business. Several transactions also lacked payment request forms and approval by the Facilities Director.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2004

Recommendation

During the audit, the District adopted and put in place procedures relating to CFD accounting and improving the set internal control structure. To strengthen internal controls over the purchasing function for the Community Facilities District, payment requests should be prepared prior to purchasing or ordering merchandise. All disbursements should be pre-approved by the Facilities Director and the Assistant Superintendent of Business, as specified by the District's CFD disbursement policies. In addition, payment requests should be accompanied by verification that the bank had received the request, such as fax transmittal confirmations or a fax log.

District Response

Greater care is being taken to ensure proper separation of duties. In addition, verifications of receipt by the trustee will be kept on file.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2004

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

Financial Statement Findings

REPORTIBLE CONDITIONS

Community Facilities District Disbursements

2003-1 Finding (30000)

We noted, when testing the internal control procedures of the Community Facility Districts internal control procedures, several transactions lacked approval of the Assistant Superintendent of Business. Several transactions also lacked payment request forms and approval by the Facilities Director.

Recommendation

During the audit, the District adopted and put in place procedures relating to CFD accounting and improving the set internal control structure. To strengthen internal controls over the purchasing function for the Community Facilities District, payment requests should be prepared prior to purchasing or ordering merchandise. All disbursements should be pre-approved by the Facilities Director and the Assistant Superintendent of Business, as specified by the District's CFD disbursement policies. In addition, payment requests should be accompanied by verification that the bank had received the request, such as fax transmittal confirmations or a fax log.

Current Status

Not implemented, see current year financials statements findings and recommendation 2004-2.

ASSOCIATED STUDENT BODY (ASB)

All Sites

2003-2 Finding (30000)

There appears to be a lack of separation of duties at the ASB sites. The ASB bookkeepers appear to have the majority of control over several important internal control systems at the ASBs including, but not limited to, the cash receipts function, reconciliation of bank accounts, preparation of checks, and financial statements.

Recommendation

The District should work with the ASB sites to ensure that a separation of duties is maintained for the important internal control systems.

MENIFEE UNION ELEMENTARY SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2004**

Current Status

Implemented.

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September 17, 2004

Governing Board
Menifee Union Elementary School District
Menifee, California

In planning our audit of the financial statements of the Menifee Union Elementary School District, for the year ended June 30, 2004, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit, we noted an opportunity for strengthening internal controls and operating efficiency. The following item represented a condition noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated September 17, 2004, on the financial statements of the Menifee Union Elementary School District.

RECORD RETENTION

DISTRICT

Finding

While reviewing the capital asset additions to the District, it was noted that not all the proper support was on hand in order to substantiate some of the capital assets that were reported on the Districts ledger.

Recommendation

The District needs to implement policies and procedures in order to have all necessary information available for future reference. By not having the proper information available, the District is risking improper valuation of assets for insurance and financial reporting purposes.

District Response

The District will maintain necessary documents to ensure that proper valuation of assets specially those costing \$5,000 or more are maintained.

STATUS OF PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

BANK RECONCILIATIONS

Finding

Bank reconciliations for the Revolving, Transportation, and Food Services accounts are reconciled to check book balance as of the date the bank statement is received. The bank statements should be reconciled as of month ending date.

Recommendation

When bank statements and District books are reconciled to the month end instead of the date the bank statement was received, this gives the District a better picture of what the District has available in their cash accounts. Furthermore, supervisory personnel in Fiscal Services should review bank reconciliation to ensure accuracy.

Current Status

Implemented.

CREDIT CARDS

Finding

The District did not have adopted polices and procedures concerning the use of its credit cards. However, during the course of the audit, the District adopted procedures for the use of credit cards.

Recommendation

The District should have written policies and procedures regarding use of credit cards.

Current Status

Implemented.

We will review the status of the current year comments during our next audit engagement.

Yours very truly,



Kevin T. Pulliam
of VAVRINEK, TRINE, DAY & CO., LLP

KTP:mcr