

**MERCED UNION
HIGH SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2004

MERCED UNION HIGH SCHOOL DISTRICT

OF MERCED COUNTY

MERCED, CALIFORNIA

JUNE 30, 2004

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
John Pedrozo	President	2005
Cappi Quigley	Vice President	2005
Dave M. Olsen	Clerk	2007
Dave Honey	Member	2005
Robert J. Weimer	Member	2007

ADMINISTRATION

Robert H. Fore, Jr., Ph.D.	Superintendent
Terry Silva	Assistant Superintendent, Business Services
Yvonne Eagle	Director of Fiscal Services

ORGANIZATION

The Merced Union High School District was established in 1915 and comprises the area of approximately 625 square miles located in Merced County. There were no changes in the boundaries of the District during the current year. The District is currently operating schools in the cities of Atwater, Livingston and Merced. The City of Merced has three campuses. Merced High School and Golden Valley High Schools have classes at the ninth through twelfth grade levels. East Campus Educational Center (ECEC) supports four educational programs: Yosemite High School which serves as the District's continuation school; Independence High School which provides independent study opportunities; classes for students from Merced and Golden Valley High School; and the main facility for the Adult School Program is located at ECEC. The City of Atwater has two campuses. Atwater High School has classes at the ninth through twelfth grade levels. Buhach Colony High School opened in August of 2001 with classes at the ninth through twelfth grade levels.

MERCED UNION HIGH 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	12
Statement of Activities	13
Fund Financial Statements	
Governmental Funds - Balance Sheet	14
Governmental Funds - Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	15
Governmental Funds - Statement of Revenues, Expenditures, and Changes in Fund Balance 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
Fiduciary Funds - Statement of Changes in Net Assets	18
Notes to Financial Statements	19
	20

REQUIRED SUPPLEMENTARY INFORMATION

General Fund - Budgetary Comparison Schedule	44
Major Fund - Special Reserve - Other than Capital Outlay - Budgetary Comparison Schedule	45

SUPPLEMENTARY INFORMATION

Schedule of Expenditures of Federal Awards	47
Schedule of Average Daily Attendance	48
Schedule of Instructional Time	49
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements	50
Schedule of Financial Trends and Analysis	51
General Fund Selected Financial Information	52
Cafeteria Account Selected Financial Information	53
Note to Supplementary Information	54

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>	57
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	59
Report on State Compliance	61

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of Auditors' Results	64
Financial Statement Findings	65
Federal Award Findings and Questioned Costs	66
State Award Findings and Questioned Costs	67
Summary Schedule of Prior Audit Findings	68

FINANCIAL SECTION

This page left blank intentionally.



INDEPENDENT AUDITORS' REPORT

Board of Trustees
Merced Union High School District
Merced, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of 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 Merced Union High School District, as of June 30, 2004, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 10, 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, and grants 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 11 and budgetary comparison information on pages 44 through 45, 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.

Vaurienek, Irvine, Day & Co., LLP

Fresno, California
August 10, 2004

MERCED UNION HIGH SCHOOL DISTRICT

BOARD OF TRUSTEES
JOHN PEDROZO
President

CAPPI QUIGLEY
Vice President

DAVE M. OLSEN
Clerk

DAVE HONEY

ROBERT J. WEIMER

P.O. BOX 2147
MERCED, CALIFORNIA 95344-0147

PHONE: (209) 385-6400

FAX: (209) 385-6442

Superintendent
ROBERT H. FORE, JR., Ph.D.

Assistant Superintendents
C. THOMAS BUDDE, Ph.D.
Human Resources/Assessment

TERRY J. SILVA
Business Services

SYLVIA SMITH
Educational Services

This section of Merced Union High School District's annual financial report presents our discussion and analysis of the 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. This is our second year of reporting under the GASB 34 format, and therefore, comparative information will be presented between the fiscal years ending June 30, 2004 and 2003, respectively.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

The financial statements presented herein include all of the activities of the Merced Union School District (the District) 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 (including infrastructure) 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 statements for each of the two categories of activities: governmental and fiduciary.

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

The *Fiduciary Activities* are presented in the trust and agency funds, which focus reporting on net assets and changes in net assets.

The Primary unit of the government is the Merced Union High School District.

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Assets and the Statement of Activities and Changes in Net Assets

The *Statement of Net Assets* and the *Statement of Activities and Changes in Net Assets* 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.

MERCED UNION HIGH 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. Other factors to consider are changes in the District's property tax base and the condition of the District's facilities.

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 an important component in this evaluation.

In the *Statement of Net Assets* and the *Statement of Activities and Changes in Net Assets*, District activities are as follows:

Governmental activities - Most of the District's services are reported in this category. This includes the education of grade nine through grade twelve students, adult education students, the operation of child development activities, 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, finance these activities.

Business-type activities - The District does not have business-type 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.

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.

MERCED UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2004

THE DISTRICT AS TRUSTEE

Reporting the Merced High School 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, scholarships, and deferred compensation. The District's fiduciary activities are reported in separate *Statements 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 total net assets were \$68.5 million for the fiscal year ended June 30, 2004, and \$63.5 million for the fiscal year ended June 30, 2003; an increase of \$5.0 million. Restricted net assets, which totaled \$31.3 million 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. The analysis below focuses on the net assets (Table 1) and change in net assets (Table 2) of the District's governmental activities for the past two fiscal years.

Table 1

(Amounts in millions)	School District Activities		Difference
	2004	2003	
Current and other assets	\$ 41.2	\$ 53.8	\$ (12.6)
Capital assets	56.5	42.7	13.8
Total Assets	97.7	96.5	1.2
Current liabilities	4.0	7.3	(3.3)
Long-term debt	25.1	25.7	(0.6)
Total Liabilities	29.1	33.0	(3.9)
Net assets			
Invested in capital assets, net of related debt	31.4	17.4	14.0
Restricted	31.3	38.0	(6.7)
Unrestricted	5.8	8.1	(2.3)
Total Net Assets	\$ 68.5	\$ 63.5	\$ 5.0

MERCED UNION HIGH 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 13. Table 2 takes the information from the Statement, rounds off the numbers, and rearranges them slightly so you can see our total revenues for the past two years along with the variance between the two fiscal years.

Table 2

(Amounts in millions)	School District Activities		Difference
	2004	2003	
Revenues			
Program revenues			
Charges for services	\$ 1.4	\$ 1.6	\$ (0.2)
Operating grants and contributions	17.7	16.7	1.0
Capital grants and contributions	0.2	12.9	(12.7)
General revenues:			
State revenue limit sources	36.9	41.4	(4.5)
Property taxes	15.0	11.6	3.4
Other general revenues	6.6	4.2	2.4
Total Revenues	77.8	88.4	(10.6)
Expenses			
Instruction related	49.9	48.9	1.0
Student support services	8.2	7.7	0.5
Administration	4.4	4.2	0.2
Maintenance and operations	7.2	7.2	-
Other	3.1	3.9	(0.8)
Total Expenses	72.8	71.9	0.9
Change in Net Assets	\$ 5.0	\$ 16.5	\$ (11.5)

Governmental Activities

As reported in the *Statement of Activities* on page 13, the cost of all of our governmental activities this year was \$72.8 million as compared to \$71.9 million in the prior year. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$15.0 million because the cost was paid by other governments and organizations which subsidized certain programs with grants and contributions (\$19.2 million). We paid for the remaining "public benefit" portion of our governmental activities with \$36.9 million in State funds and with other revenues, like interest and general entitlements.

MERCED UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2004

In Table 3, we have presented the cost of each of the District's largest functions - program instruction, pupil support services, administration, pupil transportation, administration, maintenance and operations, and other miscellaneous functions as well as each program's *net* cost (total cost less revenues generated by the 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.

Table 3

(Dollar amounts in millions)	Total Cost of Services	Net Cost of Services
Instruction	\$ 49.9	\$ 37.1
Pupil support services	6.7	3.1
Pupil transportation	1.5	0.8
Administration	4.4	3.0
Maintenance and operations	7.3	7.0
Other	3.0	2.6
Totals	\$ 72.8	\$ 53.6

The District's net cost of activities was \$53.6 million. A majority of the district's expenses were related to the education and support of its students (69.2%).

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds, restricted and unrestricted, reported a combined fund balance of \$37.2 million, while the prior year reported a balance of \$46.5 million, which is a decrease of \$9.3 million from last year.

The primary reasons for these decreases are:

- a. Our General Fund is our principal operating fund. The fund balance in the General Fund decreased \$2.7 million from prior year to an ending fund balance of \$6.5 million. This decrease in the ending fund balance is due to a decrease in available cash from \$4.8 million in 2002-03 to \$.8 million in 2003-04; a decrease of \$4.0 million. In contrast there was an increase in receivables from prior year of \$1.2 million.
- b. Our special revenue funds from the prior year showed a net increase of approximately \$1.6 million.
- c. The capital projects funds showed a decrease of \$8.5 million primarily due to capital acquisitions in the County School Facilities Fund of \$12.2 million.
- d. The debt service funds showed an increase of approximately \$.3 million.

MERCED UNION HIGH 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 March 10, 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.

CAPITAL ASSET & DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had \$89.9 million in a broad range of capital assets, including land, buildings, and furniture and equipment. For the current year, the net fixed assets totaled \$56.5 million. This amount represents a net increase (including additions, deductions and depreciation) of just over \$13.7 million.

Table 4

(Amounts in millions)	Governmental Activities		Difference
	2004	2003	
Land	\$ 3.1	\$ 3.1	\$ -
Construction in progress	11.6	2.9	8.7
Buildings and improvements	39.4	35.7	3.7
Equipment	2.3	1.0	1.3
Totals	\$ 56.4	\$ 42.7	\$ 13.7

This year's additions included vehicles, cafeteria equipment, site and building improvements, and data processing equipment. No debt was issued for these additions.

Long-Term Debt

At the end of this year, the District had \$25.1 million in debt outstanding versus \$25.7 million last year, a decrease of 2.0 percent. General Obligations bonds consisted of: 1999 Current Interest Bonds, Series A and 1999 Capital Appreciation Bonds, Series A. Under GASB 34 reporting guidelines, the liability for our retiree health benefits is no longer included as long-term debt; however, the amount (\$3.5 million) is disclosed in the Notes to the Financial Statements.

MERCED UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2004

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

At the time the District budget was developed, a State budget was not yet adopted. Much of the District's budget is based upon the Governor's *May Revise* tempered with recommendations from School Services of California and the Merced County Office of Education. Budget Assumptions were presented to and accepted by the Merced Union High School District Governing Board on May 26, 2004.

Some noteworthy components included in this budget are listed below.

- Revenue
 - COLA of 2.41%
 - Deficit factor of 2.143%
 - Funding for increased projected ADA
- Expenditures
 - Reduce basic class size by 0.5 student per class
 - Full funding for projected enrollment growth
 - Step and column salary adjustment for all employees
 - Add a Program Development Manager (Grant Writer)
 - Increase certificated substitute cost to \$85 per day from \$75

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:

Terry Silva
Assistant Superintendent, Business Services
Merced Union High School District
3430 A Street, Castle Airport
Atwater, California 95301

Telephone number: (209) 385-6411
e-mail: tsilva@muhsd.k12.ca.us

MERCED UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2004

Table 5

(Amounts in millions)	Governmental Activities		Difference
	2004	2003	
General obligation bonds	\$ 24.9	\$ 25.3	\$ (0.4)
Compensated absences	0.1	0.3	(0.2)
Capitalized lease obligations	0.1	0.1	-
Totals	\$ 25.1	\$ 25.7	\$ (0.6)

The District's general obligation bond rating continues to be "Series A." The State limits the amount of general obligation debt that District's can issue to 35 percent of the assessed value of all taxable property within the District's boundaries.

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2003-04 ARE NOTED BELOW:

The construction of the district's modernization projects for Atwater High, East Campus, Merced High and Livingston High were nearly completed in fiscal year 2003-04. The total costs of the modernization projects when completed are expected to be approximately \$17.5 million.

The district completed construction of the first four of eighteen classrooms of the Buhach Colony High School Fourth Academy with associated lavatories for \$1.3 million. Atwater High School capacity was increased by 216 student spaces through the construction of an eight classroom building at a cost of \$1.2 million.

The district identified the need to enlarge Livingston High School by 19 acres and to change a new high school site location in the Bellevue Road area of north Merced.

In the 2003-04 school year, the district implemented the California State-adopted SRA/McGraw-Hill REACH reading intervention with its students reading below grade level. Students were enrolled in three hours of intensive reading and writing instruction. Every student enrolled in the program successfully achieved reading levels of sixth grade or higher by the conclusion of the school year. This growth resulted in significantly higher Academic Performance Indexes for all our campuses. In the same school year, the district implemented a pilot of a transitional program for students exiting our reading intervention to the regular program. Approximately \$650,000 was allocated by the Board for the adoption of the REACH and the transitional programs.

Teachers were also trained in a computer application, which allows them to study student performance on the standards by collecting student responses to assessments given in the classroom, schoolwide, and at the standardized-testing level. Students' responses are catalogued by their relationship to the California State standards, enabling the teacher to see a report of students' proficiency on every standard. The Board allocated \$75,000 for this project during 2003-04.

MERCED UNION HIGH SCHOOL DISTRICT

STATEMENT OF NET ASSETS JUNE 30, 2004

	Governmental Activities
Assets	
Deposits and investments	\$ 33,199,864
Receivables	7,752,259
Stores inventories	262,913
Capital assets	
Land and construction in process	14,729,429
Other capital assets	75,246,635
Less: Accumulated depreciation	<u>(33,496,475)</u>
Total capital assets	<u>56,479,589</u>
Total Assets	<u><u>97,694,625</u></u>
Liabilities	
Accounts payable	3,733,954
Deferred revenue	306,286
Long-term liabilities	
Current portion of long-term obligations	1,059,317
Noncurrent portion of long-term obligations	<u>24,055,267</u>
Total long-term liabilities	<u>25,114,584</u>
Total Liabilities	<u><u>29,154,824</u></u>
Net Assets	
Invested in capital assets, net of related debt	31,433,570
Restricted for:	
Debt service	2,377,746
Capital projects	15,050,716
Educational programs	676,181
Other activities	13,222,091
Unrestricted	<u>5,779,497</u>
Total Net Assets	<u><u>\$ 68,539,801</u></u>

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

MERCED UNION HIGH 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	Capital Grants and Contributions
Governmental Activities:				
Instruction	\$ 40,949,345	\$ 364,688	\$ 10,636,544	\$ 178,748
Instruction-related activities:				
Supervision of instruction	1,387,542	833	1,041,812	-
Instructional library, media and technology	1,144,259	-	38,902	-
School site administration	6,424,345	4,419	549,998	-
Pupil services:				
Home-to-school transportation	1,500,518	-	665,548	-
Food services	2,764,673	929,518	1,693,408	-
All other pupil services	3,959,342	1,667	1,003,057	-
General administration:				
Data processing	1,071,315	-	-	-
All other general administration	3,349,050	3,375	1,426,170	-
Plant services	7,272,963	2,299	318,017	-
Ancillary services	1,074,051	-	-	-
Interest on long-term debt	1,280,894	-	-	-
Other outgo	610,864	79,069	283,892	-
Total School District	\$ 72,789,161	\$ 1,385,868	\$ 17,657,348	\$ 178,748
General revenues and subventions:				
Property taxes, levied for general purposes				
Property taxes, levied for debt service				
Taxes levied for other specific purposes				
Federal and State aid not restricted to specific purposes				
Miscellaneous				
Subtotal, General Revenues				
Excess (Deficiency) of Revenues Over Expenses				
Transfers between funds				
Total General Revenues and Transfers				
Change in Net Assets				
Net Assets - Beginning				
Net Assets - Ending				

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

Net (Expenses) Revenues and Changes in Net Assets
Governmental Activities
\$ (29,769,365)
(344,897)
(1,105,357)
(5,869,928)
(834,970)
(141,747)
(2,954,618)
(1,071,315)
(1,919,505)
(6,952,647)
(1,074,051)
(1,280,894)
(247,903)
<u>(53,567,197)</u>
13,104,911
1,886,176
35,102
36,925,640
6,617,628
<u>58,569,457</u>
5,002,260
-
5,002,260
63,537,541
<u>\$ 68,539,801</u>

MERCED UNION HIGH SCHOOL DISTRICT

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

	General Fund	Special Reserve Non-Capital Fund	Capital Facilities Fund
ASSETS			
Deposits and investments	\$ 773,181	\$ 11,714,313	\$ 4,551,991
Receivables	7,225,853	-	48,573
Due from other funds	337,807	-	-
Stores inventories	196,338	-	-
Total Assets	\$ 8,533,179	\$ 11,714,313	\$ 4,600,564
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	1,449,343	-	725,930
Due to other funds	281,213	-	21,207
Deferred revenue	278,380	-	-
Total Liabilities	2,008,936	-	747,137
FUND BALANCES			
Reserved	892,519	-	-
Unreserved:			
Designated	5,631,724	11,500,334	3,853,427
Undesignated, reported in:			
Special revenue funds	-	213,979	-
Debt service funds	-	-	-
Total Fund Balance	6,524,243	11,714,313	3,853,427
Total Liabilities and Fund Balances	\$ 8,533,179	\$ 11,714,313	\$ 4,600,564

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

County School Facilities Fund	Special Reserve Capital Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ 6,691,372	\$ 5,287,877	\$ 4,181,130	\$ 33,199,864
286	-	477,547	7,752,259
-	-	302,107	639,914
-	-	66,575	262,913
<u>\$ 6,691,658</u>	<u>\$ 5,287,877</u>	<u>\$ 5,027,359</u>	<u>\$ 41,854,950</u>
866,044	-	692,637	3,733,954
15,466	-	322,028	639,914
-	5,303	22,603	306,286
<u>881,510</u>	<u>5,303</u>	<u>1,037,268</u>	<u>4,680,154</u>
-	-	304,601	1,197,120
5,810,148	5,282,574	1,202,842	33,281,049
-	-	104,902	318,881
-	-	2,377,746	2,377,746
<u>5,810,148</u>	<u>5,282,574</u>	<u>3,990,091</u>	<u>37,174,796</u>
<u>\$ 6,691,658</u>	<u>\$ 5,287,877</u>	<u>\$ 5,027,359</u>	<u>\$ 41,854,950</u>

This page left blank intentionally.

MERCED UNION HIGH 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		\$ 37,174,796
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	\$ 89,976,064	
Accumulated depreciation is	<u>(33,496,475)</u>	
Total capital assets		56,479,589
Long-term liabilities at year end consist of:		
General obligation bonds - current interest bonds	(12,765,000)	
General obligation bonds - capital appreciation bonds	(12,144,258)	
State school building loans payable	(10,579)	
Capital lease obligations	(126,182)	
Compensated absences	<u>(68,565)</u>	
Total long-term liabilities		<u>(25,114,584)</u>
Total Net Assets - Governmental Activities		<u><u>\$ 68,539,801</u></u>

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

MERCED UNION HIGH SCHOOL DISTRICT

GOVERNMENTAL FUNDS

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

	General Fund	Special Reserve Non-Capital Fund
REVENUES		
Revenue limit sources	\$ 50,655,163	\$ -
Federal sources	6,087,698	-
Other state sources	9,023,790	-
Other local sources	987,657	224,555
Total Revenues	66,754,308	224,555
EXPENDITURES		
Current		
Instruction	38,514,988	-
Instruction-related activities:		
Supervision of instruction	1,297,180	-
Instructional library, media and technology	949,690	-
School site administration	6,027,831	-
Pupil Services:		
Home-to-school transportation	1,365,227	-
Food services	-	-
All other pupil services	3,920,958	-
General administration:		
Data processing	672,685	-
All other general administration	3,341,924	-
Plant services	6,757,764	-
Facility acquisition and construction	38,975	-
Ancillary services	1,064,322	-
Other outgo	206,684	-
Debt service		
Principal	21,740	-
Interest and other	-	-
Total Expenditures	64,179,968	-
Excess (Deficiency) of Revenues Over Expenditures	2,574,340	224,555
Other Financing Sources (Uses):		
Transfers in	328,331	1,500,000
Transfers out	(5,657,400)	-
Net Financing Sources (Uses)	(5,329,069)	1,500,000
NET CHANGE IN FUND BALANCES	(2,754,729)	1,724,555
Fund Balance - Beginning	9,278,972	9,989,758
Fund Balance - Ending	\$ 6,524,243	\$ 11,714,313

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

Capital Facilities Fund	County School Facilities Fund	Special Reserve Capital Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 1,296,666	\$ 51,951,829
-	-	69,078	1,773,266	7,930,042
-	178,748	29,951	448,521	9,681,010
2,905,111	245,461	38,387	3,827,369	8,228,540
<u>2,905,111</u>	<u>424,209</u>	<u>137,416</u>	<u>7,345,822</u>	<u>77,791,421</u>
-	-	-	1,199,045	39,714,033
-	-	-	91,872	1,389,052
-	-	-	-	949,690
-	-	-	461,925	6,489,756
-	-	-	-	1,365,227
-	-	-	2,758,187	2,758,187
-	-	-	45,901	3,966,859
-	-	-	-	672,685
-	-	-	86,175	3,428,099
475,890	-	-	144,384	7,378,038
2,216,215	12,630,050	69,077	743,163	15,697,480
-	-	-	-	1,064,322
-	-	-	404,180	610,864
-	-	-	957,577	979,317
-	-	-	623,720	623,720
<u>2,692,105</u>	<u>12,630,050</u>	<u>69,077</u>	<u>7,516,129</u>	<u>87,087,329</u>
<u>213,006</u>	<u>(12,205,841)</u>	<u>68,339</u>	<u>(170,307)</u>	<u>(9,295,908)</u>
-	-	3,500,000	657,400	5,985,731
-	-	-	(328,331)	(5,985,731)
-	-	3,500,000	329,069	-
<u>213,006</u>	<u>(12,205,841)</u>	<u>3,568,339</u>	<u>158,762</u>	<u>(9,295,908)</u>
<u>3,640,421</u>	<u>18,015,989</u>	<u>1,714,235</u>	<u>3,831,329</u>	<u>46,470,704</u>
<u>\$ 3,853,427</u>	<u>\$ 5,810,148</u>	<u>\$ 5,282,574</u>	<u>\$ 3,990,091</u>	<u>\$ 37,174,796</u>

MERCED UNION HIGH SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE DISTRICT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2004

Total Net Change in Fund Balances - Governmental Funds **\$ (9,295,908)**
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:

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

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

Capital outlays	15,867,786	
Depreciation expense	<u>\$ (2,161,882)</u>	13,705,904

In the statement of activities compensated absences (vacations) is measured by the amounts earned during the year. In the governmental funds, however, expenditures for this item are measured by the amount of financial resources used (essentially, the amounts actually paid).

Vacation used was more than the amounts earned by \$270,121.	270,121
--	---------

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

General obligation bonds	955,000
State school building loans	2,577
Capital lease obligations	21,740

Interest accreted on Capital Appreciation Bonds is recognized in the statement of activities when incurred, but is not recognized in the governmental fund financial statements until it is paid.

	(657,174)
--	-----------

Change in Net Assets of Governmental Activities	<u><u>\$ 5,002,260</u></u>
--	-----------------------------------

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

MERCED UNION HIGH SCHOOL DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2004**

	<u>Private-Purpose Trusts</u>		<u>Agency</u>
	<u>Scholarships</u>	<u>Deferred Compensation</u>	<u>Student Body</u>
ASSETS			
Deposits and investments	\$ 1,306,826	\$ 2,443,878	\$ 585,932
Total Assets	<u>1,306,826</u>	<u>2,443,878</u>	<u>585,932</u>
LIABILITIES			
Due to student groups and employees	-	2,443,878	585,932
Total Liabilities	<u>-</u>	<u>2,443,878</u>	<u>585,932</u>
NET ASSETS			
Reserved for scholarships	1,306,826	-	-
Total Net Assets	<u>\$ 1,306,826</u>	<u>\$ -</u>	<u>\$ -</u>

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

MERCED UNION HIGH SCHOOL DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2004**

	Private-Purpose Trusts	
	Scholarships	Deferred Compensation
ADDITIONS		
Trust income	\$ 400,241	\$ -
Contributions	-	63,693
Interest	24,755	76,112
Total Additions	<u>424,996</u>	<u>139,805</u>
DEDUCTIONS		
Scholarships awarded	456,545	
Miscellaneous	30	139,805
Total Deductions	<u>456,575</u>	<u>139,805</u>
Change in Net Assets	(31,579)	-
Net Assets - Beginning	<u>1,338,405</u>	<u>-</u>
Net Assets - Ending	<u>\$ 1,306,826</u>	<u>\$ -</u>

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

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The Merced Union High School District was organized in 1915 under the laws of the State of California. The District operates under a locally-elected five-member Board form of government and provides educational services to grades 9 - 12 as mandated by the State and/or Federal agencies. The District five high schools, an adult, as well as a continuation and independent study site.

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

B. State Deferred Appropriations

As part of its plan to address the budget crisis facing the State of California, Senate Bill (SB) XI 18 (the "Bill") was signed into law during the year ended June 30, 2003. The provisions of the Bill significantly altered funding for California school districts. The Bill, among other things, shifted the appropriation for the payment of the June 2004 principal apportionment for the General and Adult Funds into the 2004-2005 fiscal year. The Bill allowed local educational agencies to recognize for budgetary and financial reporting purposes any amount of state appropriations deferred from the current fiscal year and appropriated from the subsequent fiscal year for payment of current-year costs as a receivable in the current year. In addition, Assembly Bill 2781 deferred the 2003-2004 appropriations for the Home-to-School Transportation, School Improvement, Targeted Instructional Improvement, and Supplemental Grant programs into the 2004-2005 fiscal year. Exclusion of the apportionments would have resulted in a decrease in receivables, revenue, and available reserves of \$2,911,196.

C. Component Units

Component units are legally separate organizations for which the District may be financially accountable. Component units may include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units may be other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. The District has no component units.

Joint Powers Agencies and Public Entity Risk Pools The District is associated with three public entity risk pools. These organizations do not meet the criteria for inclusion as component units of the District. Summarized audited financial information is presented in Note 14 to the financial statements. These organizations are:

Self-Insured Schools of California Health and Welfare Program
Self-Insured Schools of California Property and Liability Program
Merced County Schools Insurance Group

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

D. Basis of Presentation - Fund Accounting

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

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

Major Governmental Funds

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

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

Capital 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).

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

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.

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:

Adult Education Fund The Adult Education Fund is used to account for resources committed to adult education programs maintained by the District.

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

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

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

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

Pupil Transportation Equipment Fund The Pupil Transportation Equipment Fund is used to account for resources committed to the acquisition, rehabilitation, or replacement of equipment used to transport students.

Retiree Benefits Fund The Retiree Benefits Fund is used to account for contributions for employees' retirement benefits payments.

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.

Tax Override Fund The Tax Override Fund is used for the repayment of voted indebtedness tax levies to be financed from ad valorem tax levies.

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 fund:

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.

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into two classifications: private-purpose trust funds and agency funds.

Trust funds are used to account for the assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's trust funds are scholarship and deferred compensation accounts. 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).

E. Basis of Accounting - Measurement Focus

Government-Wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

The government-wide statement of activities presents a comparison between direct expenses and program revenues 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. The District does not allocate indirect expenses to functions in the Statement of Activities. 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 is self-financing or draws from the general revenues of the District.

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

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

Governmental Funds All governmental funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide financial 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 90 days of fiscal year-end.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

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 within the available period are also recorded as deferred revenue.

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. 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.

F. 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.

G. 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.

H. 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.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

I. Stores Inventory

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

J. 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. 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 basis for general capital assets are historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are capitalized at estimated fair market value on the date donated.

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

K. 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.

L. 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. The non-current portion of the liability is reported as long-term debt.

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.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

M. 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.

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. 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.

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.

P. 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.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

Q. 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.

R. 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.

S. 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 Merced bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

T. 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 monies 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.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

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 \$21,160 for governmental activities, \$1,892,758 held in fiduciary funds. The bank balances totaled \$1,963,377. Of the bank balances, \$300,000 was covered by Federal deposit insurance and \$1,663,377 was covered by pooled and/or pledged collateral, but not necessarily held in the District's name (uncollateralized, risk Category 3).

C. Investments

Certain 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 and mutual funds 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 Treasurer and the holding agent.

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

	<u>Reported Amount</u>	<u>Fair Value</u>
Uncategorized		
Mutual funds	\$ 2,443,878	\$ 2,443,878
Deposits with county treasurer	33,178,704	32,981,999
Total	<u>\$ 35,622,582</u>	<u>\$ 35,425,877</u>

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

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	Capital Facilities Fund	County School Facilities Fund	Nonmajor Governmental Funds	Total
Federal Government					
Categorical aid	\$ 2,030,502	\$ -	\$ -	\$ 181,459	\$ 2,211,961
State Government					
Apportionment	2,491,954	-	-	101,063	2,593,017
Categorical aid	1,118,115	-	-	41,948	1,160,063
Lottery	438,957	-	-	-	438,957
Local Sources	1,146,325	48,573	286	153,077	1,348,261
Total	\$ 7,225,853	\$ 48,573	\$ 286	\$ 477,547	\$ 7,752,259

NOTE 4 - CAPITAL ASSETS

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

	Balance July 1, 2003	Additions	Deductions	Balance June 30, 2004
Governmental Activities				
Capital Assets not being depreciated				
Land	\$ 3,117,000	\$ -	\$ -	\$ 3,117,000
Construction in progress	2,913,325	8,699,104	-	11,612,429
Total Capital Assets Not Being Depreciated	6,030,325	8,699,104	-	14,729,429
Capital Assets being depreciated				
Land improvements	11,283,259	2,039,594	-	13,322,853
Buildings and improvements	49,908,658	3,221,356	24,768	53,105,246
Furniture and equipment	7,079,502	1,907,732	168,698	8,818,536
Total Capital Assets Being Depreciated	68,271,419	7,168,682	193,466	75,246,635
Less Accumulated Depreciation				
Land improvements	6,934,527	256,041	-	7,190,568
Buildings and improvements	18,538,503	1,318,202	24,768	19,831,937
Furniture and equipment	6,055,029	587,639	168,698	6,473,970
Total Accumulated Depreciation	31,528,059	2,161,882	193,466	33,496,475
Governmental Activities Capital Assets, Net	\$42,773,685	\$ 13,705,904	\$ -	\$ 56,479,589

MERCED UNION HIGH SCHOOL DISTRICT

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

Depreciation expense was charged to governmental functions as follows:

Governmental Activities

Instruction	\$ 1,275,510
Instructional library, media, and technology	194,569
School site administration	9,080
Home-to-school transportation	216,188
Food services	6,486
Ancilliary services	9,729
Data processing	410,758
All other general administration	12,971
Plant services	<u>26,591</u>
Total Depreciation Expenses Governmental Activities	<u><u>\$ 2,161,882</u></u>

NOTE 5 - INTERFUND TRANSACTIONS

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

Interfund receivable and payable balances at June 30, 2004, are as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General	\$ 337,807	\$ 281,213
Adult	-	90,650
Child Development	1,454	116,649
Cafeteria	6	25,344
Deferred Maintenance	280,000	-
Building	20,647	-
Capital Facilities	-	21,207
County School Facilities	-	15,466
Retiree Benefit	-	<u>89,385</u>
Total	<u><u>\$ 639,914</u></u>	<u><u>\$ 639,914</u></u>

MERCED UNION HIGH 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 Deferred Maintenance Fund for the required State match.	\$ 280,000
The General Fund transferred to the Child Development Fund for a temporary loan.	147,400
The General Fund transferred to the Cafeteria Fund for a temporary loan.	230,000
The General Fund transferred to the Special Reserve - Other than Capital Outlay Fund to fund special projects.	1,500,000
The General Fund transferred to the Special Reserve - Capital Outlay Fund for future capital projects.	3,500,000
The Child Development Fund transferred to the General Fund to pay back temporary loan.	94,737
The Cafeteria Fund transferred to the General Fund to pay back temporary loan.	233,594
Total	<u><u>\$ 5,985,731</u></u>

NOTE 6 - ACCOUNTS PAYABLE

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

	General Fund	Capital Facilities Fund	County School Facilities Fund	Nonmajor Governmental Funds	Total
Vendor payables	\$ 786,844	\$ 725,930	\$ 866,044	\$ 692,637	\$ 3,071,455
State apportionment	475,792	-	-	-	475,792
Salaries and benefits	186,707	-	-	-	186,707
Total	<u><u>\$ 1,449,343</u></u>	<u><u>\$ 725,930</u></u>	<u><u>\$ 866,044</u></u>	<u><u>\$ 692,637</u></u>	<u><u>\$ 3,733,954</u></u>

MERCED UNION HIGH SCHOOL DISTRICT

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

NOTE 7 - DEFERRED REVENUE

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

	General Fund	Special Reserve Capital Fund	Nonmajor Governmental Funds	Total
Federal financial assistance	\$ 209,419	\$ 5,303	\$ -	\$ 214,722
State categorical aid	66,705	-	1,507	68,212
Other local	2,256	-	21,096	23,352
Total	<u>\$ 278,380</u>	<u>\$ 5,303</u>	<u>\$ 22,603</u>	<u>\$ 306,286</u>

NOTE 8 - LONG-TERM LIABILITIES

A. Long-Term Debt Summary

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

	Balance July 1, 2003	Additions and Accretion	Deductions	Balance June 30, 2004	Due in One Year
1999 Current Interest Bonds, Series A	\$ 13,720,000	\$ -	\$ 955,000	\$ 12,765,000	\$1,035,000
1999 Capital Appreciation Bonds, Series A	11,487,084	657,174	-	12,144,258	-
State school building loans	13,156	-	2,577	10,579	2,577
Accumulated vacation - net	338,686	-	270,121	68,565	-
Capital leases	147,922	-	21,740	126,182	21,740
Total	<u>\$25,706,848</u>	<u>\$657,174</u>	<u>\$1,249,438</u>	<u>\$ 25,114,584</u>	<u>\$1,059,317</u>

MERCED UNION HIGH SCHOOL DISTRICT

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

B. Bonded Debt

The outstanding general obligation bonded debt is as follows:

Bond Issue	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2003	Accreted/ (Redeemed)	Bonds Outstanding June 30, 2004
Current Interest							
Series A	08/01/99	08/01/12	4.5 to 5.5%	\$15,410,000	\$ 13,720,000	\$ (955,000)	\$ 12,765,000
Capital Appreciation							
Series A	08/01/12	08/01/24	5.4 to 5.75%	9,221,061	11,487,084	657,174	12,144,258
Total				<u>\$24,631,061</u>	<u>\$ 25,207,084</u>	<u>\$ (297,826)</u>	<u>\$ 24,909,258</u>

The Merced Union High School District 1999 General Obligation Bonds, Series A, in the aggregate principal amount of \$24,631,061, are being issued by the Board of Supervisors of the County of Merced on behalf of the Merced Union High School District. The Series A Bonds represent a general obligation of the District, payable solely from *ad valorem* property taxes levied and collected by the County of Merced.

Interest with respect to the Current Interest Series A Bonds accrues from August 1, 1999, and is payable semiannually commencing February 1, 2000. The Capital Appreciation Series A Bonds are dated the date of delivery of the Series A Bonds and accrete interest from such date, compounded semiannually on February 1 and August 1 of each year, commencing February 1, 2000. Both series are issuable as fully registered Series A bonds.

Debt Service Requirements to Maturity

1999 Current Interest, Series A - Payment Summary

The bonds mature through 2013 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2005	\$ 1,035,000	\$ 578,945	\$ 1,613,945
2006	1,120,000	530,458	1,650,458
2007	1,205,000	478,145	1,683,145
2008	1,300,000	421,783	1,721,783
2009	1,400,000	360,333	1,760,333
2010-2013	6,705,000	703,269	7,408,269
Total	<u>\$ 12,765,000</u>	<u>\$ 3,072,933</u>	<u>\$ 15,837,933</u>

MERCED UNION HIGH SCHOOL DISTRICT

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

1999 Capital Appreciation, Series A - Accretion Summary:

<u>Maturity</u>	<u>Accreted Obligation</u>	<u>Accretion To Date</u>	<u>Unaccreted Interest</u>	<u>Final Maturity</u>
2014	\$ 1,238,100	\$ 287,040	\$ 761,900	\$ 2,000,000
2015	1,188,656	279,981	856,344	2,045,000
2016	1,144,505	271,679	945,495	2,090,000
2017	1,102,999	263,841	1,037,001	2,140,000
2018	1,058,960	255,252	1,126,040	2,185,000
2019	1,017,551	247,124	1,217,449	2,235,000
2020	979,145	238,851	1,305,855	2,285,000
2021	947,653	231,192	1,392,347	2,340,000
2022	911,713	223,083	1,478,287	2,390,000
2023	881,300	215,649	1,563,700	2,445,000
2024	851,450	208,325	1,648,550	2,500,000
2025	822,226	201,181	1,732,774	2,555,000
Total	<u>\$ 12,144,258</u>	<u>\$ 2,923,198</u>	<u>\$ 15,065,742</u>	<u>\$ 27,210,000</u>

C. State and Public School Building Loans

State school building loans outstanding as of June 30, 2004, are as follows:

<u>Year Disbursed</u>	<u>Interest Rate</u>	<u>Balance July 1, 2003</u>	<u>Interest Charge</u>	<u>Repayment and State Credit Current Year</u>	<u>Outstanding June 30, 2004</u>
1986-87	4.80%	<u>\$ 13,156</u>	<u>\$ -</u>	<u>\$ 2,577</u>	<u>\$ 10,579</u>

The State and Public School Building Loans are secured by all sites purchased and improved, all equipment purchased, and all buildings constructed, reconstructed, altered, or added to through the expenditure of such funds in accordance with Section 16019 of the Education Code.

Annual repayment is determined by the State Controller in accordance with Section 16214 of the Education Code.

D. Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2004, amounted to \$68,565.

MERCED UNION HIGH SCHOOL DISTRICT

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

E. Capital Leases

The District has entered into various capital lease arrangements at June 30, 2004. The District's liability on lease agreements with options to purchase are summarized below:

	<u>Total</u>
Balance, July 1, 2003	\$ 147,922
Payments	21,740
Balance, June 30, 2004	<u>\$ 126,182</u>

The capital leases have minimum lease payments as follows:

<u>Year Ending June 30,</u>	<u>Lease Payment</u>
2005	\$ 25,859
2006	24,271
2007	19,682
2008	19,094
2009	18,506
2010-2011	<u>35,246</u>
Total	142,658
Less: Amount Representing Interest	<u>16,476</u>
Present Value of Minimum Lease Payments	<u>\$ 126,182</u>

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE 9 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Special Reserve Non-Capital Fund	Capital Facilities Fund	County School Facilities Fund	Special Reserve Capital Fund	Nonmajor Governmental Funds	Total
Reserved							
Revolving cash	\$ 20,000	\$ -	\$ -	\$ -	\$ -	\$ 760	\$ 20,760
Stores inventory	196,338	-	-	-	-	66,575	262,913
General reserve	-	-	-	-	-	237,266	237,266
Restricted programs	676,181	-	-	-	-	-	676,181
Total Reserved	892,519	-	-	-	-	304,601	1,197,120
Unreserved							
Designated							
Economic uncertainties	2,095,121	-	-	-	-	-	2,095,121
Other designation	3,536,603	11,500,334	3,853,427	5,810,148	5,282,574	1,202,842	31,185,928
Total Designated	5,631,724	11,500,334	3,853,427	5,810,148	5,282,574	1,202,842	33,281,049
Undesignated							
Total Unreserved	5,631,724	11,714,313	3,853,427	5,810,148	5,282,574	3,685,490	35,977,676
Total	\$ 6,524,243	\$11,714,313	\$3,853,427	\$5,810,148	\$5,282,574	\$ 3,990,091	\$37,174,796

NOTE 10 - POSTEMPLOYMENT BENEFITS

The District provides postemployment health care benefits, in accordance with District employment contracts, to all employees who retire from the District on or after attaining age 55 with at least ten years of service. Currently, 169 employees meet those eligibility requirements. The District contributes a negotiated portion of the amount of premiums incurred by retirees and their dependents. Expenditures for postemployment benefits are recognized on a pay-as-you-go basis, as retirees report claims/(premiums are paid). During the year, expenditures of \$1,011,954 were recognized for retirees' health care benefits.

The approximate accumulated future liability for the District at June 30, 2004, amounts to \$14,548,652. The estimated liability is based on an actuarial study performed during 2003.

NOTE 11 - RISK MANAGEMENT

A. Property and Liability

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

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

B. Workers' Compensation

For fiscal year 2004, the District participated in the Merced County Schools Insurance Group, an insurance purchasing pool. The intent of the Merced County Schools Insurance Group is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Merced County Schools Insurance Group. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in the Merced County Schools Insurance Group. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage. A participant will then either receive money from or be required to contribute to the "equity-pooling fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the Merced County Schools Insurance Group. Participation in the Merced County Schools Insurance Group is limited to districts that can meet the Merced County Schools Insurance Group selection criteria.

Coverage provided by MCSIG for property and liability and workers' compensation is as follows:

<u>Insurance Program / Company Name</u>	<u>Type of Coverage</u>	<u>Limits</u>
<u>Workers' Compensation Program</u>		
Merced County Schools Insurance Group	Workers' Compensation	\$ 19,000,000 per year \$ 250,000 per occurrence
<u>Excess Property and Liability Program</u>		
School Excess Liability Fund (SELF)	Excess Property and Liability	Per occurrence: \$ 25,000,000-Liability, Auto. \$ 75,000,000-Property \$ 250,000-Compreh. Crime \$ 15,000,000-Boiler and Machinery \$ 2,500-Student Accident

C. Employee Medical Benefits

The District has contracted with the Self Insured Schools of California Health and Welfare Program to provide employee medical and surgical benefits. Self Insured Schools of California Health and Welfare Program is a shared risk pool comprised of agencies within California. Rates are set through an annual calculation process. The District pays a monthly contribution, which is placed in a common fund from which claim payments are made for all participating Districts. Claims are paid for all participants regardless of claims flow. The Board of Directors has a right to return monies to a district subsequent to the settlement of all expenses and claims if a district withdraws from the pool.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE 12 - 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 year 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 years ending June 30, 2004, 2003, and 2002, were \$2,624,220, \$2,606,224, and \$2,261,076, respectively, and equal 100 percent of the required contributions for each year.

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.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

Funding Policy

Active plan members are required to contribute 7.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 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 years ending June 30, 2004, 2003, and 2002, were \$984,159, \$273,375, and \$0, respectively, and equal 100 percent of the required contributions for each year.

C. Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (STRS or PERS) must be covered by social security or an alternative plan. The District has elected to use its alternative plan. Contributions made by the District and an employee vest immediately. The District contributes 6.2 percent of an employee's gross earnings. An employee is required to contribute 6.2 percent of his or her gross earnings to the pension plan.

D. 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 \$731,148 (2.28 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 also have not been recorded in these financial statements.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

A. Grants

The District received financial assistance from Federal and State agencies in the form of grants. 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.

B. 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.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

C. Operating Leases

The District has entered into various operating leases for buildings and equipment with lease terms in excess of one year. None of these agreements contain purchase options. All agreements contain a termination clause providing for cancellation after a specified number of days written notice to lessors, but it is unlikely that the District will cancel any of the agreements prior to the expiration date.

D. 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
Atwater High School Painting	\$ 22,355	August 2004
East Campus Educational Center Re-roofing	6,422	August 2004
Merced High School Re-roofing	8,926	August 2004
Livingston High School Re-roofing	6,327	August 2004
East Campus Educational Center HVAC	23,678	August 2004
Atwater High School Drainage	72,934	August 2004
Livingston High School Re-roofing	72,377	July 2004
Class Size Reduction at Various Sites	61,577	October 2004
Buhach Colony High School Fourth Academy	90,000	July 2004
Atwater High School Modernization	1,028,000	October 2004
East Campus Educational Center Modernization	45,123	July 2004
Merced High School Modernization	599,000	October 2004
Bellevue Ranch	21,600	October 2004
Swimming Pool Architect Services at Buhach Colony High School	108,049	October 2004
	<u>\$ 2,166,368</u>	

NOTE 14 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWERS AUTHORITIES

The District is a member of the Self-Insured Schools of California Health and Welfare Program, Self-Insured Schools of California Property and Liability Program, and the Merced County Schools Insurance Group public entity risk pools. The District pays an annual premium to each entity for its health, workers' compensation, and property liability coverage. The relationships between the District and pools are such that they are not component units of the District for financial reporting purposes.

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

MERCED UNION HIGH SCHOOL DISTRICT

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

A. <u>Entity</u>	Self-Insured Schools of California Health and Welfare Program	Self-Insured Schools of California Property and Liability Program	Merced County Schools Insurance Group
B. <u>Purpose</u>	Arranges and provides self-insurance for medical, dental, and vision	Arranges and provides self-insurance for property and liability	Arranges and provides self-insurance for workers' compensation
C. <u>Participants</u>	Participating districts	Participating districts	Members of its twenty member districts
D. <u>Governing Board</u>	Consisting of a representative from each member district	Consisting of a representative from each member district	Consisting of a representative from each member district

E. Condensed Audited Financial Information Follows

	<u>September 30, 2003*</u>	<u>June 30, 2003*</u>	<u>June 30, 2003*</u>
Assets	\$ 58,227,156	\$ 22,796,192	\$ 11,750,350
Liabilities	55,936,120	13,651,860	9,103,759
Fund Equity	<u>\$ 2,291,036</u>	<u>\$ 9,144,332</u>	<u>\$ 2,646,591</u>
Revenues	459,179,220	13,041,744	4,343,516
Expenses	434,134,122	13,891,341	6,166,615
Net Increase/(Decrease) in Fund Equity	<u>\$ 25,045,098</u>	<u>\$ (849,597)</u>	<u>\$ (1,823,099)</u>

*Most recent information available.

None of the JPA's had long-term debts outstanding at June 30, 2003, nor September 30, 2003. The District's share of year-end assets, liabilities, or fund equity has not been calculated.

MERCED UNION HIGH SCHOOL DISTRICT

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

NOTE 15 - EXPENDITURES (BUDGET VERSUS ACTUAL)

At June 30, 2004, the following District expenditures exceeded the budgeted amounts as follows:

Funds	Expenditures and Other Uses		
	Budget	Actual	Excess
Child Development			
Certificated Salaries	\$ 21,428	\$ 24,315	\$ 2,887
Classified Salaries	\$ 141,194	\$ 143,835	\$ 2,641
Employee Benefits	\$ 77,640	\$ 82,373	\$ 4,733
Cafeteria			
Employee Benefits	\$ 374,713	\$ 386,109	\$ 11,396
Deferred Maintenance			
Capital Outlay	\$ 495,795	\$ 677,372	\$ 181,577
Building			
Capital Outlay	\$ 48,078	\$ 65,791	\$ 17,713
Capital Facilities			
Books and Supplies	\$ 4,752	\$ 28,314	\$ 23,562
Services and Other Operating Expenditures	\$ 426,720	\$ 447,576	\$ 20,856

NOTE 16 - TAX AND REVENUE ANTICIPATION NOTES

At July 1, 2003, the District had outstanding Tax and Revenue Anticipation Notes in the amount of \$3,465,000, which matured on July 3, 2003. The District issued no Tax and Revenue Anticipation Notes for the 2003-04 fiscal year.

	Outstanding July 1, 2003	Additions	Deletions	Outstanding June 30, 2004
2003 1.6% TRANS	\$ 3,465,000	\$ -	\$ 3,465,000	\$ -

This page left blank intentionally.

REQUIRED SUPPLEMENTARY INFORMATION

MERCED UNION HIGH SCHOOL DISTRICT

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

	Budgeted Amounts		Actual (GAAP Basis)	Variances -
	(GAAP Basis)			Favorable
	Original	Final		(Unfavorable) Final to Actual
REVENUES				
Revenue limit sources	\$ 49,444,937	\$ 51,568,521	\$ 50,655,163	\$ (913,358)
Federal sources	5,550,391	7,579,581	6,087,698	(1,491,883)
Other state sources	7,271,847	8,274,503	9,023,790	749,287
Other local sources	430,000	460,437	987,657	527,220
Total Revenues	<u>62,697,175</u>	<u>67,883,042</u>	<u>66,754,308</u>	<u>(1,128,734)</u>
EXPENDITURES				
Current				
Certificated Salaries	30,141,781	31,604,067	31,331,876	272,191
Classified salaries	9,803,368	10,125,896	9,913,443	212,453
Employee benefits	13,173,533	13,358,523	13,105,577	252,946
Books and supplies	3,770,275	4,922,742	3,735,202	1,187,540
Services and operating expenditures	6,893,643	7,790,997	5,742,341	2,048,656
Other outgo	218,091	221,134	122,922	98,212
Capital outlay	77,330	396,979	206,867	190,112
Debt service	30,780	30,780	21,740	9,040
Total Expenditures	<u>64,108,801</u>	<u>68,451,118</u>	<u>64,179,968</u>	<u>4,271,150</u>
Excess (Deficiency) of Revenues				
Over Expenditures	<u>(1,411,626)</u>	<u>(568,076)</u>	<u>2,574,340</u>	<u>3,142,416</u>
Other Financing Sources (Uses):				
Transfers in	503,000	305,000	328,331	23,331
Transfers out	<u>(780,000)</u>	<u>(5,889,000)</u>	<u>(5,657,400)</u>	<u>231,600</u>
Net Financing Sources (Uses)	<u>(277,000)</u>	<u>(5,584,000)</u>	<u>(5,329,069)</u>	<u>254,931</u>
NET CHANGE IN FUND BALANCES	<u>(1,688,626)</u>	<u>(6,152,076)</u>	<u>(2,754,729)</u>	<u>3,397,347</u>
Fund Balance - Beginning	9,278,972	9,278,972	9,278,972	-
Fund Balance - Ending	<u>\$ 7,590,346</u>	<u>\$ 3,126,896</u>	<u>\$ 6,524,243</u>	<u>\$ 3,397,347</u>

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

MERCED UNION HIGH SCHOOL DISTRICT

**MAJOR FUND - SPECIAL RESERVE - OTHER THAN CAPITAL OUTLAY
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2004**

	Budgeted Amounts		Actual	Variances -
	(GAAP Basis)			Favorable
	Original	Final	(GAAP Basis)	Final (Unfavorable) to Actual
REVENUES				
Other local sources	\$ 150,000	\$ 115,000	\$ 224,555	\$ 109,555
Total Revenues	<u>150,000</u>	<u>115,000</u>	<u>224,555</u>	<u>109,555</u>
EXPENDITURES				
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>150,000</u>	<u>115,000</u>	<u>224,555</u>	<u>109,555</u>
Other Financing Sources (Uses):				
Transfers in		1,500,000	1,500,000	-
Net Financing Sources (Uses)	<u>-</u>	<u>1,500,000</u>	<u>1,500,000</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>150,000</u>	<u>1,615,000</u>	<u>1,724,555</u>	<u>109,555</u>
Fund Balance - Beginning	<u>9,989,758</u>	<u>9,989,758</u>	<u>9,989,758</u>	
Fund Balance - Ending	<u>\$10,139,758</u>	<u>\$11,604,758</u>	<u>\$ 11,714,313</u>	<u>\$ 109,555</u>

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

This page left blank intentionally.

SUPPLEMENTARY INFORMATION

This page left blank intentionally.

MERCED UNION HIGH SCHOOL DISTRICT

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

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
Adult Education - Priority 1-3	84.002A	13802	\$ 59,393
Adult Education - Priority 5	84.002A	13978	10,121
Adult Education - English Literacy	84.002A	13303	109,204
Adult Education - Section 132	84.048	13923	5,217
Title IV- Drug Free Schools	84.184	13453	3,179
No Child Left Behind			
Title I - Basic [1]	84.010	13797	2,867,014
Title II - Teacher Quality	84.367	14341	538,231
Title II - Enhancing Education through Technology	84.318	14334	73,195
Title V - Innovative Strategies	84.298A	14354	43,072
Title III - LEP	84.365	10084	109,975
State Gear Up Program	84.334	10088	513,993
Advanced Placement Fee Assistance	84.330A	13917	37,125
Special Education - State Grants			
Local Assistance [1]	84.027	13379	1,422,582
Vocational Educational Grants			
Carl Perkins	84.048	13555	326,494
Passed through the Office of Public School Construction			
Federal Renovation Assistance	84.352A	14318	69,077
Total U.S. Department of Education			<u>6,187,872</u>
U.S. DEPARTMENT OF LABOR			
Passed through CDE:			
Workforce Investment Act	17.255	13422	<u>70,859</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through CDE:			
National School Lunch and Breakfast Programs [1]	10.553, 10.555	13755	1,589,331
Commodities - National Food Distribution Program [1] [2]	10.550	13755	100,567
Total U.S. Department of Agriculture			<u>1,689,898</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through CDE:			
Medi-Cal	93.774	10013	81,980
Total Federal Financial Assistance			<u>\$ 8,030,609</u>

[1] Major program under OMB Circular A-133 guidelines.

[2] Federal commodities not included in Federal Revenue on Financial Statements.

See accompanying note to supplementary information.

MERCED UNION HIGH SCHOOL DISTRICT

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

	Second Period Report	Annual Report
SECONDARY		
Regular classes	8,634	8,567
Continuation education	181	181
Home and hospital	6	6
Special education	219	218
Total Secondary	9,040	8,972
CLASSES FOR ADULTS		
Concurrently enrolled	45	41
Not concurrently enrolled	535	548
Total Classes for Adults	580	589
Grand Total	9,620	9,561
		Hours of Attendance
SUPPLEMENTAL HOURS		
K-12 core instruction		74,482
7-12 remedial instruction		225,256
Total Hours		299,738

See accompanying note to supplementary information.

MERCED UNION HIGH SCHOOL DISTRICT

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

<u>Grade Level</u>	1982-83	1986-87	2003-04	<u>Number of Days</u>		<u>Status</u>
	<u>Actual Minutes</u>	<u>Minutes Requirement</u>	<u>Actual Minutes</u>	<u>Traditional Calendar</u>	<u>Multitrack Calendar</u>	
Grades 9 - 12	61,195	64,800	64,840	180	N/A	Complied

See accompanying note to supplementary information.

MERCED UNION HIGH SCHOOL DISTRICT

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004**

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2004.

See accompanying note to supplementary information.

MERCED UNION HIGH SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2004

	(Budget) 2005 ¹	2004	2003	2002
GENERAL FUND				
Revenues	\$ 68,699,013	\$ 66,754,308	\$ 65,328,045	\$ 63,229,994
Other sources and transfers in	503,000	328,331	2,292,689	699,055
Total Revenues and Other Sources	69,202,013	67,082,639	67,620,734	63,929,049
Expenditures	68,906,455	64,179,968	62,578,760	61,542,301
Other uses and transfers out	1,005,000	5,657,400	2,554,000	5,713,476
Total Expenditures and Other Uses	69,911,455	69,837,368	65,132,760	67,255,777
INCREASE/(DECREASE) IN FUND BALANCE	\$ (709,442)	\$ (2,754,729)	\$ 2,487,974	\$ (3,326,728)
ENDING FUND BALANCE	\$ 5,814,801	\$ 6,524,243	\$ 9,278,972	\$ 6,790,998
AVAILABLE RESERVES²	\$ 2,097,343	\$ 2,309,100	\$ 2,076,522	\$ 4,622,588
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	3.00%	3.31%	3.19%	6.87%
LONG-TERM DEBT	N/A	\$ 25,114,584	\$ 39,393,274	\$ 35,756,292
AVERAGE DAILY ATTENDANCE AT P-2³	9,143	9,040	8,832	8,611

The General Fund balance has decreased by \$266,755 over the past two years. The fiscal year 2004-05 budget projects a further decrease of \$709,442 (10.9 percent). For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating deficits in two of the past three years and anticipates incurring an operating deficit during the 2004-05 fiscal year. Total long-term debt has decreased by \$10,641,708 over the past two years primarily due to the issuance of general obligation bonds.

Average daily attendance has increased by 429 ADA over the past two years. Additional growth of 103 ADA is anticipated during fiscal year 2004-05.

1 Budget 2005 is included for analytical purposes only and has not been subjected to audit.

2 Available reserves consist of all undesignated fund balances and all funds designated for economic uncertainty contained within the General Fund and Special Reserve Fund (other than capital outlay).

3 Excludes Adult Education ADA.

See accompanying note to supplementary information.

MERCED UNION HIGH SCHOOL DISTRICT

**GENERAL FUND SELECTED FINANCIAL INFORMATION
THREE-YEAR SUMMARY OF REVENUES, EXPENDITURES AND
CHANGES OF FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2004**

(Dollar amounts in thousands)

	Actual Results for the Years					
	2003-2004		2002-2003		2001-2002	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Amount	Percent of Revenue
REVENUES						
Federal revenue	\$ 6,088	9.1	\$ 4,531	6.9	\$ 3,908	6.2
State and local revenue included in revenue limit	50,655	75.9	50,128	76.7	47,670	75.4
Other state revenue	9,024	13.5	9,757	14.9	10,430	16.5
Other local revenue	987	1.5	912	1.4	1,222	1.9
Total Revenues	<u>66,754</u>	<u>100.0</u>	<u>65,328</u>	<u>100.0</u>	<u>63,230</u>	<u>100.0</u>
EXPENDITURES						
Salaries and Benefits						
Certificated salaries	31,332	46.9	31,022	47.5	29,703	47.0
Classified salaries	9,914	14.9	9,961	15.2	9,598	15.2
Employee benefits	13,106	19.6	12,293	18.8	11,578	18.3
Total Salaries and Benefits	<u>54,352</u>	<u>81.4</u>	<u>53,276</u>	<u>81.6</u>	<u>50,879</u>	<u>80.5</u>
Books and supplies	3,735	5.6	3,236	5.0	4,706	7.4
Contracts and operating expenses	5,742	8.6	5,003	7.7	4,467	7.1
Capital outlay	207	0.3	907	1.4	1,379	2.2
Debt service	21	0.0	26	0.0	31	0.0
Other outgo	123	0.2	131	0.2	81	0.1
Total Expenditures	<u>64,180</u>	<u>96.1</u>	<u>62,579</u>	<u>95.8</u>	<u>61,543</u>	<u>97.3</u>
EXCESS OF REVENUES OVER/ (UNDER) EXPENDITURES	<u>2,574</u>	<u>3.85595</u>	<u>2,749</u>	<u>4.2</u>	<u>1,687</u>	<u>2.7</u>
OTHER FINANCING SOURCES/(USES)						
Operating transfers in	328	0.5	2,293	3.5	307	0.5
Operating transfers out	(5,657)	(8.5)	(2,554)	(3.9)	(5,713)	(9.0)
Other sources	-	0.0	-	0.0	392	0.0
Total Other Financing Sources/(Uses)	<u>(5,329)</u>	<u>(8.0)</u>	<u>(261)</u>	<u>(0.4)</u>	<u>(5,014)</u>	<u>8.5</u>
INCREASE/(DECREASE) IN FUND BALANCE	<u>(2,755)</u>	<u>(4.1)</u>	<u>2,488</u>	<u>3.8</u>	<u>(3,327)</u>	<u>(5.9)</u>
FUND BALANCE, BEGINNING	<u>9,279</u>		<u>6,791</u>		<u>10,118</u>	
FUND BALANCE, ENDING	<u>\$ 6,524</u>		<u>\$ 9,279</u>		<u>\$ 6,791</u>	
ENDING FUND BALANCE TO TOTAL REVENUES		<u>9.8</u>		<u>14.2</u>		<u>10.7</u>
BASE REVENUE LIMIT PER ADA						
Regular 9-12	<u>\$ 5,584</u>		<u>\$ 5,482</u>		<u>\$ 5,374</u>	

See accompanying note to supplementary information.

MERCED UNION HIGH SCHOOL DISTRICT

**CAFETERIA ACCOUNT SELECTED FINANCIAL INFORMATION
THREE-YEAR SUMMARY OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2004**

(Dollar amounts in thousands)

	Actual Results for the Years					
	2003-2004		2002-2003		2001-2002	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Amount	Percent of Revenue
REVENUES						
Federal - NSLP	\$ 1,581	55.7	\$ 1,388	52.1	\$ 1,201	48.0
State meal program	105	3.7	99	3.7	98	3.9
Food sales	1,152	40.6	1,179	44.2	1,203	48.1
Total Revenues	<u>2,838</u>	<u>100.0</u>	<u>2,666</u>	<u>100.0</u>	<u>2,502</u>	<u>100.0</u>
EXPENDITURES						
Salaries and employee benefits	1,227	43.2	1,144	42.9	1,053	42.1
Food and Supplies	1,237	43.6	1,183	44.4	1,184	47.3
Other	285	10.0	300	11.3	263	10.5
Total Expenditures	<u>2,749</u>	<u>96.9</u>	<u>2,627</u>	<u>98.5</u>	<u>2,500</u>	<u>99.9</u>
EXCESS OF REVENUES OVER/ (UNDER) EXPENDITURES	<u>89</u>	<u>3.1</u>	<u>39</u>	<u>1.5</u>	<u>2</u>	<u>0.1</u>
OTHER FINANCING SOURCES/(USES)						
Transfers in	230	8.1	24	0.9	200	7.99361
Transfers out	(234)	(8.2)	(24)	(0.9)	(207)	(8.3)
Total Other Financing Sources (Uses)	<u>(4)</u>	<u>(0.1)</u>	<u>-</u>	<u>-</u>	<u>(7)</u>	<u>(0.3)</u>
INCREASE/(DECREASE) IN FUND BALANCE	<u>85</u>	<u>3.0</u>	<u>39</u>	<u>0.0</u>	<u>(5)</u>	<u>(0.2)</u>
FUND BALANCE, BEGINNING	<u>87</u>		<u>48</u>		<u>53</u>	
FUND BALANCE, ENDING	<u>\$ 172</u>		<u>\$ 87</u>		<u>\$ 48</u>	

* * * * *

TYPE 'A' LUNCH PARTICIPATION

	2003-2004		2002-2003		2001-2002	
	Amount	Percent	Amount	Percent	Amount	Percent
TYPE 'A' LUNCHES						
Paid	16,325	2.8	22,032	4.0	22,964	4.5
Reduced price	91,133	15.7	80,166	14.5	56,469	11.0
Free	471,424	81.4	452,513	81.6	435,217	84.6
Total Lunches	<u>578,882</u>	<u>100.0</u>	<u>554,711</u>	<u>100.0</u>	<u>514,650</u>	<u>100.0</u>

See accompanying note to supplementary information.

MERCED UNION HIGH 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.

F. General Fund Selected Financial Information

This schedule provides a comparison of revenues and expenditures as a percentage of total revenue for the General Fund for the past three years.

MERCED UNION HIGH SCHOOL DISTRICT

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

G. Cafeteria Account Selected Financial Information

This schedule provides a comparison of revenues and expenditures as a percentage of total revenue for the cafeteria account for the past three years.

This page left blank intentionally.

INDEPENDENT AUDITORS' REPORTS

This page left blank intentionally.



**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***

Board of Trustees
Merced Union High School District
Merced, California

We have audited the financial statements of Merced Union High School District as of and for the year ended June 30, 2004, and have issued our report thereon dated August 10, 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 Merced Union High School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting 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 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of Merced Union High School District in a separate letter dated August 10, 2004.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Merced Union High 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 no 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 Board of Trustees, management, the California Department of Education, the State Controller's Office, and Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Vaurio, Stone, Day & Co., LLP

Fresno, California
August 10, 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**

Board of Trustees
Merced Union High School District
Merced, California

Compliance

We have audited the compliance of Merced Union High 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. Merced Union High 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 Merced Union High School District's management. Our responsibility is to express an opinion on Merced Union High 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 Merced Union High 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 Merced Union High School District's compliance with those requirements.

In our opinion, Merced Union High 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 Merced Union High 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 Merced Union High 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 Board of Trustees, management, the California Department of Education, the State Controller's Office, and Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Vantrek, Irvine, Day & Co., LLP

Fresno, California
August 10, 2004



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Trustees
 Merced Union High School District
 Merced, California

We have audited the financial statements of the Merced Union High School District as of and for the year ended June 30, 2004, and have issued our report thereon dated August 10, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial and compliance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Controller's *Standards and Procedures for Audits of California K-12 Local Educational Agencies*. 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.

The management of Merced Union High School District is responsible for the District's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine the Merced Union High School District's compliance with the State laws and regulations applicable to the following items:

	Procedures in Controller's Audit Guide	Procedures Performed
Attendance accounting		
Attendance reporting	6	Yes
Kindergarten continuance	3	Not Applicable
Independent study	22	Yes
Continuation education	10	Yes
Adult education	9	Yes
Regional occupational centers and programs	6	Not Applicable
Instructional time and staff development reform program	7	Yes
Instructional Time:		
School districts	4	Yes
County Offices of Education	3	Not Applicable
Community day schools	9	Not Applicable

	Procedures in Controller's Audit Guide	Procedures Performed
Class size reduction program:		
General requirements	7	Not Applicable
Option one classes	3	Not Applicable
Option two classes	4	Not Applicable
District or charter schools with only one school servicing K-3	4	Not Applicable
Instructional Materials:		
General requirements	9	Yes
K-8 only	1	Not Applicable
9-12 only	1	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Early retirement incentive	4	Not Applicable
GANN limit calculation	1	Yes
Office of Criminal Justice Planning	-	Not Applicable

Based on our audit, we found that for the items tested, the Merced Union High School District complied with the State laws and regulations referred to above. Further, based on our audit, for items not tested, nothing came to our attention to indicate that the Merced Union High School District had not complied with the laws and regulations.

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

Vavrinek, Urine, Day & Co., LLP

Fresno, California
August 10, 2004

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

This page left blank intentionally.

MERCED UNION HIGH 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>No</u>
Reporting conditions identified not considered to be material weaknesses?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified?	<u>No</u>
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)	<u>No</u>
Identification of major programs:	

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
<u>10.550, 10.553, 10.555</u>	<u>Department of Agriculture Cluster</u>
<u>84.010</u>	<u>Title I</u>
<u>84.027</u>	<u>Special Education: IDEA</u>

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

STATE AWARDS

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>

MERCED UNION HIGH SCHOOL DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2004**

There were no findings representing reportable conditions, material weaknesses, nor instances of noncompliance related to the financial statements that were required to be reported in accordance with *Government Auditing Standards*.

MERCED UNION HIGH SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

There were no findings representing reportable conditions, material weaknesses, nor instances of noncompliance including questioned costs that were required to be reported by OMB Circular A-133.

MERCED UNION HIGH SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

There were no findings representing instances of noncompliance nor questioned costs relating to State program laws and regulations.

MERCED UNION HIGH 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.

State Award Findings

2003-1 40000

State Library Grant

Finding

In our audit of the Library Grant, we noted that the District used funds to purchase some prohibited expenditures in the amount of \$ 3,016.70, from Highsmith Company, Inc. and Valley Library Bindery. Grant guidelines prohibit District's from using Grant funds to purchase "furniture or binding services," such as tables, shelves and sending books out for new covers. The Highsmith Company, Inc. invoices #7625812-002, 7625812-006, 7625812-005, 7625812-004, 7625812-0017625812-008, 7625812-003 and they were used to purchase tables and shelves. Valley Library Bindery invoices #1984, 1984-A and 1945 invoices were used for rebinding services.

Recommendation

The District needs to reclass the questioned cost of \$3,016.70 out of the 6296 Library Grant Resource. In addition the District needs to review all other expenditures charged to the Library Grant to ensure there are no other prohibited expenditures charged to the Library Grant.

Current Status

Implemented.

**MERCED UNION
HIGH SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2005

**MERCED UNION HIGH SCHOOL DISTRICT
OF MERCED COUNTY
MERCED, CALIFORNIA
JUNE 30, 2005**

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Robert J. Weimer	President	2007
Cappi Quigley	Vice President	2005
Dave Honey	Clerk	2005
Tim O'Neill	Member	2005
Dave M. Olsen	Member	2007

ADMINISTRATION

Robert H. Fore, Jr., Ph.D.	Superintendent
Terry Silva	Assistant Superintendent, Business Services
Yvonne Eagle	Director of Fiscal Services

MERCED UNION HIGH SCHOOL DISTRICT

TABLE OF CONTENTS

JUNE 30, 2005

FINANCIAL SECTION

Independent Auditors' Report	2
Management's Discussion and Analysis	4
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets	12
Statement of Activities	13
Fund Financial Statements	
Governmental Funds - Balance Sheet	14
Governmental Funds - Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	15
Governmental Funds - Statement of Revenues, Expenditures, and Changes in Fund Balance	16
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the District-Wide Statement of Activities	17
Fiduciary Funds - Statement of Net Assets	18
Fiduciary Funds - Statement of Changes in Net Assets	19
Notes to Financial Statements	20

REQUIRED SUPPLEMENTARY INFORMATION

General Fund - Budgetary Comparison Schedule	46
Major Fund - Cafeteria Fund - Budgetary Comparison Schedule	47
Major Fund - Special Reserve - Other than Capital Outlay - Budgetary Comparison Schedule	48

SUPPLEMENTARY INFORMATION

Schedule of Expenditures of Federal Awards	50
Schedule of Average Daily Attendance	51
Schedule of Instructional Time	52
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements	53
Schedule of Financial Trends and Analysis	54
Note to Supplementary Information	55

SUPPLEMENTARY INFORMATION - UNAUDITED

General Fund Selected Financial Information - Unaudited	57
Cafeteria Account Selected Financial Information - Unaudited	58
Combining Statements - Private Purpose Scholarship Trust Funds	
Combining Statement of Net Assets - Unaudited	59
Combining Statement of Changes in Net Assets - Unaudited	60
Note to Unaudited Supplementary Information - Unaudited	63

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>	71
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	73
Report on State Compliance	75

MERCED UNION HIGH SCHOOL DISTRICT

TABLE OF CONTENTS

JUNE 30, 2005

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of Auditors' Results	78
Financial Statement Findings	79
Federal Award Findings and Questioned Costs	80
State Award Findings and Questioned Costs	81
Summary Schedule of Prior Audit Findings	82

FINANCIAL SECTION

This page left blank intentionally.



INDEPENDENT AUDITORS' REPORT

Board of Trustees
Merced Union High School District
Merced, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Merced Union High School District (the "District") as of and for the year ended June 30, 2005, 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 *2004-05 Standards and Procedures for Audits of California K-12 Local Educational Agencies*, prescribed in the California Code of Regulations, Title 5, Section 19810 and following. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Merced Union High School District, as of June 30, 2005, and the respective changes in financial positions 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 2, 2005, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The required supplementary information, such as management's discussion and analysis on pages 4 through 11 and budgetary comparison information on pages 46 and 48, are not a required part of the basic financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information listed in the table of contents, including the schedule of expenditures of federal awards which is required by U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, 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.

The unaudited supplementary information listed in the table of contents, including the General Fund Selected Financial Information - Unaudited and the Cafeteria Account Selected Financial Information - Unaudited, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Vavrinek, Trine, Day & Co., LLP
Fresno, California
September 2, 2005



Superintendent
Robert H. Fore, Ph.D.

Board of Trustees
Dave Honey
Dave M. Olsen
Tim O'Neill
Cappi Quigley
Robert J. Weimer

Castle Airport, 3430 A Street, Atwater, California 95301
Mailing Address: P.O. Box 2147 Merced, CA 95344
www.muhsd.k12.ca.us 209-385-6400 (Fax 209-385-6442)

Assistant Superintendents
Raynee J. Daley, Ed.D.
Terry J. Silva
Sylvia Smith

This section of Merced Union High School District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2005. Please read it in conjunction with the District's financial statements, which immediately follow this section. This is our second year of reporting under the GASB 34 format, and therefore, comparative information will be presented between the fiscal years ending June 30, 2005 and 2004, respectively.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

The financial statements presented herein include all of the activities of the Merced Union School District (the District) 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 (including infrastructure) 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 statements for each of the two categories of activities: governmental and fiduciary.

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

The *Fiduciary Activities* are presented in the trust and agency funds, which focus reporting on net assets and changes in net assets.

The Primary unit of the government is the Merced Union High School District.

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Assets and the Statement of Activities and Changes in Net Assets

The *Statement of Net Assets* and the *Statement of Activities and Changes in Net Assets* 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.

MERCED UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2005

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. Other factors to consider are changes in the District's property tax base and the condition of the District's facilities.

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 an important component in this evaluation.

In the *Statement of Net Assets* and the *Statement of Activities and Changes in Net Assets*, District activities are as follows:

Governmental activities - Most of the District's services are reported in this category. This includes the education of grade nine through grade twelve students, adult education students, the operation of child development activities, 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, finance these activities.

Business-type activities - The District does not have business-type 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.

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.

MERCED UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2005

THE DISTRICT AS TRUSTEE

Reporting the Merced High School 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, scholarships, and deferred compensation. The District's fiduciary activities are reported in separate *Statements 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 total net assets were \$ 74.6 million for the fiscal year ended June 30, 2005, and \$68.5 million for the fiscal year ended June 30, 2004; an increase of \$6.1 million. Restricted net assets, which totaled \$39.1 million 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. The analysis below focuses on the net assets (Table 1) and change in net assets (Table 2) of the District's governmental activities for the past two fiscal years.

Table 1

(Amounts in millions)	School District Activities		Variance
	2005	2004	
Current and other assets	\$ 45.9	\$ 41.2	\$ 4.7
Capital assets	59.9	56.5	3.4
Total Assets	105.8	97.7	8.1
Current liabilities	5.6	4.0	1.6
Long-term debt	25.5	25.1	0.4
Total Liabilities	31.1	29.1	2.0
Net assets			
Invested in capital assets, net of related debt	34.5	31.4	3.1
Restricted	32.5	31.3	1.2
Unrestricted	7.7	5.8	1.9
Total Net Assets	\$ 74.7	\$ 68.5	\$ 6.2

Changes in Net Assets

The results of this year's operations for the District as a whole are reported in the *Statement of Activities* on page 13. Table 2 takes the information from the Statement, rounds off the numbers, and rearranges them slightly so you can see our total revenues for the past two years along with the variance between the two fiscal years.

MERCED UNION HIGH SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2005**

Table 2

(Amounts in millions)

	School District Activities		Variance
	2005	2004	
Revenues			
Program revenues:			
Charges for services	\$ 1.6	\$ 1.4	\$ 0.2
Operating grants and contributions	19.4	17.7	1.7
Capital grants and contributions	1.9	0.2	1.7
General revenues:			
State revenue limit sources	46.5	36.9	9.6
Property taxes	12.9	15.0	(2.1)
Other general revenues	5.2	6.6	(1.4)
Total Revenues	87.5	77.8	9.7
Expenses			
Instruction related	55.9	49.9	6.0
Student support services	8.9	8.2	0.7
Administration	4.7	4.4	0.3
Maintenance and operations	7.8	7.2	0.6
Other	4.1	3.1	1.0
Total Expenses	81.4	72.8	8.6
Change in Net Assets	\$ 6.1	\$ 5.0	\$ 1.1

Governmental Activities

As reported in the *Statement of Activities* on page 13, the cost of all of our governmental activities this year was \$80.1 million as compared to \$72.8 million in the prior year. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$12.8 million because the cost was paid by other governments and organizations which subsidized certain programs with grants and contributions (\$19.4 million). We paid for the remaining "public benefit" portion of our governmental activities with \$46.5 million in State funds and with other revenues, like interest and general entitlements.

In Table 3, we have presented the cost of each of the District's largest functions - program instruction, pupil support services, administration, pupil transportation, administration, maintenance and operations, and other miscellaneous functions as well as each program's *net* cost (total cost less revenues generated by the 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.

MERCED UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2005

Table 3

(Dollar amounts in millions)	Total Cost of Services		Net Cost of Services	
	2005	2004	2005	2004
Instruction	\$ 55.9	\$ 49.9	\$ 40.6	\$ 37.1
Pupil support services	7.2	6.7	0.9	3.1
Pupil transportation	1.7	1.5	3.4	0.8
Administration	4.7	4.4	2.8	3.0
Maintenance and operations	7.8	7.3	7.3	7.0
Other	4.1	3.0	3.6	2.6
Totals	\$ 81.4	\$ 72.8	\$ 58.6	\$ 53.6

The District's net cost of activities for the current year was \$57.9 as compared to \$53.6 million in the prior year. A majority of the District's expenses were related to the education and support of its students (77.5%).

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds, restricted and unrestricted, reported a combined fund balance of \$40.2 million, while the prior year reported a balance of \$37.2 million, which is an increase of \$3.0 million from last year.

The primary reasons for these decreases are:

- a. Our General Fund is our principal operating fund. The fund balance in the General Fund increased \$2.3 million from the prior year to an ending fund balance of \$8.6 million. This increase in the ending fund balance is due to an increase in available cash from \$0.8 million in 2003-04 to \$5.2 million in 2004-05; an increase of \$4.4 million. In contrast there was a decrease in receivables from prior year of \$0.8 million.
- b. Our special revenue funds from the prior year showed a net increase of approximately \$0.1 million.
- c. The capital projects funds showed a decrease of \$0.9 million primarily due to capital acquisitions in the County School Facilities Fund of \$2.5 million.
- d. The debt service funds showed an increase of approximately \$0.2 million.

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 March 9, 2005. (A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report.

MERCED UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2005

CAPITAL ASSET & DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had \$89.9 million in a broad range of capital assets, including land, buildings, and furniture and equipment, while at June 30, 2005, the net fixed assets totaled \$95.5 million. This amount represents a net increase/decrease (including additions, deductions and depreciation) of just over \$5.7 million.

Table 4

(Amounts in millions)	Governmental Activities		Variance
	2005	2004	
Land	\$ 3.1	\$ 3.1	\$ -
Construction in progress	7.3	11.6	(4.3)
Buildings and improvements	46.8	39.4	7.4
Equipment	2.7	2.3	0.4
Totals	\$ 59.9	\$ 56.4	\$ 3.5

This year's additions of \$2.1 included several vehicles, site and building improvements and classroom equipment such as computers. No debt was issued for these additions.

Long-Term Debt

At the end of this year, the District had \$25.4 million in debt outstanding versus \$25.1 million last year, an increase of 1.2 percent. General Obligations bonds consisted of: 1999 Current Interest Bonds, Series A and 1999 Capital Appreciation Bonds, Series A. Under GASB 34 reporting guidelines, the liability for our retiree health benefits is no longer included as long-term debt; however, the amount (\$15.4 million) is disclosed in the Notes to the Financial Statements.

Table 5

(Amounts in millions)	Governmental Activities		Variance
	2005	2004	
General obligation bonds	\$ 25.3	\$ 24.9	\$ 0.4
Compensated absences	-	0.1	(0.1)
Capitalized lease obligations	0.1	0.1	-
Totals	\$ 25.4	\$ 25.1	\$ 0.3

The District's general obligation bond rating continues to be "Series A." The State limits the amount of general obligation debt that District's can issue to 35 percent of the assessed value of all taxable property within the District's boundaries.

MERCED UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2005

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2004-05 ARE NOTED BELOW:

In the 2004-05 school year, the district expanded the California State-adopted SRA/McGraw Hill REACH reading intervention with its students reading below grade level. The Board invested \$90,300 in new materials to include more students served, as well as the cost of keeping approximately 30 sections district wide below 20. The three hours of intensive instruction allows students to close reading gaps and rejoin their peers in grade level instruction at the completion of the program.

Also this year, the district went to full implementation of a transitional program, developed by Holt Rinehart Winston, for students exiting the reading intervention, and for students who are in danger of or who have not passed the California High School Exit Exam. The district invested approximately \$550,000 in the expansion of this program, with materials available for all four grade levels of instruction to provide two hours a day of English language arts for those students performing somewhat below grade level, and one hour a day for those on or above grade level.

In order to train teachers to deliver these two programs, State AB 466 funds were allocated in the amount of \$67,100 to provide five days of training to each instructor using the REACH and Holt materials with students.

The district continues to use a computer application, called Edusoft, which allows teachers to study student performance on the standards by collecting student responses to assessments given in the classroom, school wide, and at the standardized testing level. Teachers are able to use the information recorded in Edusoft to daily assess student progress and modify their instruction accordingly. The Board allocated approximately \$40,000 for this endeavor during 2004-2005.

The district negotiated the purchase of 58 acres for a possible school site in Merced City for \$5.8 million. An eminent domain action was initiated to acquire 19 acres for the expansion of the Livingston High School campus for \$1.2 million.

The renovation of two school swimming pools was planned and bid with work to occur in 2005-2006 for \$900,000.

After months of communication regarding the need for additional funding from new housing development the district negotiated agreements with private companies building residential subdivisions totaling over \$6,000,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

At the time the District budget was developed, a State budget was not yet adopted. Much of the District's budget is based upon the Governor's *May Revise* tempered with recommendations from School Services of California and the Merced County Office of Education. Budget Assumptions were presented to and accepted by the Merced Union High School District Governing Board on June 22, 2005.

MERCED UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2005

Some noteworthy components included in this budget are listed below.

- Revenue
 - COLA of 4.23 %
 - Deficit factor of 1.129 %
 - Funding for increased projected ADA
 - No equalization aid funding
- Expenditures
 - Staffing to reduce basic class size by 0.5 student per class (to 34.2:1 compared to 34.7:1 prior year) but base projected class size on the projected average enrollment for the first five days of the second semester
 - Full funding for projected enrollment growth
 - Step and column salary adjustment for all employees
 - Administrative structure change- vice principals to associate principals

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:

Terry Silva
Assistant Superintendent, Business Services
Merced Union High School District
3430 A Street, Castle Airport
Atwater, California 95301

Telephone number: (209) 385-6411
e-mail: tsilva@muhsd.k12.ca.us

MERCED UNION HIGH SCHOOL DISTRICT

STATEMENT OF NET ASSETS JUNE 30, 2005

	Governmental Activities
ASSETS	
Deposits and investments	\$ 38,580,305
Receivables	7,070,035
Stores inventories	234,204
Non-depreciable capital assets	10,456,240
Depreciable capital assets, net of accumulated depreciation	49,455,006
Total Assets	<u>105,795,790</u>
LIABILITIES	
Accounts payable	4,588,314
Deferred revenue	1,090,848
Current portion of long-term obligations	1,259,616
Noncurrent portion of long-term obligations	24,210,874
Total Liabilities	<u>31,149,652</u>
NET ASSETS	
Invested in capital assets, net of related debt	34,477,055
Restricted for:	
Debt service	2,609,894
Capital projects	15,668,451
Educational programs	1,190,793
Other activities	13,012,188
Unrestricted	7,687,757
Total Net Assets	<u>\$ 74,646,138</u>

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

MERCED UNION HIGH SCHOOL DISTRICT

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental Activities:				
Instruction	\$ 46,954,809	\$ 177,348	\$ 11,937,303	\$ 1,918,250
Instruction-related activities:				
Supervision of instruction	1,171,567	2,087	632,494	-
Instructional library, media and technology	1,050,002	-	30,849	-
School site administration	7,256,406	5,289	629,343	-
Pupil services:				
Home-to-school transportation	1,728,874	75,045	695,360	-
Food services	2,979,058	954,705	1,728,543	-
All other pupil services	4,224,137	357	1,088,047	-
General administration:				
Data processing	676,792	-	352	-
All other general administration	3,956,620	64,783	1,706,467	-
Plant services	7,837,233	3,883	497,737	-
Ancillary services	1,134,001	-	2,284	-
Enterprise services	242,306	-	-	-
Interest on long-term debt	2,009,719	-	-	-
Other outgo	226,731	318,482	407,876	-
Total Governmental-Type Activities	\$ 81,448,255	\$ 1,601,979	\$ 19,356,655	\$ 1,918,250

General revenues and subventions:

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

Subtotal, General Revenues

Excess (Deficiency) of Revenues Over Expenses

Net Assets - Beginning

Net Assets - Ending

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

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

**Governmental
Activities**

\$	(32,921,908)
	(536,986)
	(1,019,153)
	(6,621,774)
	(958,469)
	(295,810)
	(3,135,733)
	(676,440)
	(2,185,370)
	(7,335,613)
	(1,131,717)
	(242,306)
	(2,009,719)
	499,627
	<u>(58,571,371)</u>
	11,135,404
	1,809,319
	36,068
	46,498,356
	468,396
	979
	4,729,189
	<u>64,677,711</u>
	6,106,340
	68,539,801
\$	<u><u>74,646,141</u></u>

MERCED UNION HIGH SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2005**

	General Fund	Cafeteria Fund	Special Reserve Non-Capital Fund
ASSETS			
Deposits and investments	\$ 5,159,221	\$ 238,780	\$ 12,892,298
Receivables	6,414,573	269,190	-
Due from other funds	1,416,417	2	-
Stores inventories	176,051	58,153	-
Total Assets	\$ 13,166,262	\$ 566,125	\$ 12,892,298
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	3,490,801	229,914	-
Due to other funds	17,527	230,913	1,077,156
Deferred revenue	1,059,311	-	-
Total Liabilities	4,567,639	460,827	1,077,156
FUND BALANCES			
Reserved	1,386,844	58,873	-
Unreserved:			
Designated	7,211,779	-	11,679,401
Undesignated, reported in:			
Special revenue funds	-	46,425	135,741
Debt service funds	-	-	-
Total Fund Balance	8,598,623	105,298	11,815,142
Total Liabilities and Fund Balances	\$ 13,166,262	\$ 566,125	\$ 12,892,298

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

Capital Facilities Fund	Special Reserve Capital Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ 5,988,526	\$ 6,654,290	\$ 7,647,190	\$ 38,580,305
65,328	-	320,944	7,070,035
17,209	-	30,647	1,464,275
-	-	-	234,204
<u>\$ 6,071,063</u>	<u>\$ 6,654,290</u>	<u>\$ 7,998,781</u>	<u>\$ 47,348,819</u>
490,793	-	376,806	4,588,314
60	5,303	133,316	1,464,275
-	-	31,537	1,090,848
<u>490,853</u>	<u>5,303</u>	<u>541,659</u>	<u>7,143,437</u>
-	-	-	1,445,717
5,580,210	6,648,987	4,847,228	35,967,605
-	-	-	182,166
-	-	2,609,894	2,609,894
<u>5,580,210</u>	<u>6,648,987</u>	<u>7,457,122</u>	<u>40,205,382</u>
<u>\$ 6,071,063</u>	<u>\$ 6,654,290</u>	<u>\$ 7,998,781</u>	<u>\$ 47,348,819</u>

This page left blank intentionally.

MERCED UNION HIGH SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2005**

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

Total Fund Balance - Governmental Funds		\$ 40,205,382
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	\$ 95,540,343	
Accumulated depreciation is	<u>(35,629,097)</u>	
Total capital assets		59,911,246
Long-term liabilities at year end consist of:		
General obligation bonds - current interest bonds	(11,730,000)	
General obligation bonds - capital appreciation bonds	(13,573,396)	
State school building loans payable	(9,613)	
Capital lease obligations	(121,182)	
Compensated absences	<u>(36,299)</u>	
Total long-term liabilities		<u>(25,470,490)</u>
Total Net Assets - Governmental Activities		<u>\$ 74,646,138</u>

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

MERCED UNION HIGH SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2005**

	General Fund	Cafeteria Fund
REVENUES		
Revenue limit sources	\$ 55,768,365	\$ -
Federal sources	7,119,002	1,743,702
Other state sources	10,215,340	117,636
Other local sources	1,448,878	1,146,026
Total Revenues	74,551,585	3,007,364
EXPENDITURES		
Current		
Instruction	44,244,920	-
Instruction-related activities:		
Supervision of instruction	1,072,543	-
Instructional library, media and technology	960,916	-
School site administration	6,672,623	-
Pupil Services:		
Home-to-school transportation	1,566,479	-
Food services	-	2,892,698
All other pupil services	4,118,677	-
General administration:		
Data processing	673,069	-
All other general administration	3,656,374	172,138
Plant services	6,929,971	7,371
Facility acquisition and construction	47,846	-
Ancillary services	1,134,001	-
Other outgo	226,731	-
Enterprise services	242,306	-
Debt service		
Principal	5,000	-
Interest and other	-	-
Total Expenditures	71,551,456	3,072,207
Excess (Deficiency) of Revenues Over Expenditures	3,000,129	(64,843)
Other Financing Sources (Uses):		
Transfers in	1,303,061	180,000
Transfers out	(2,228,810)	(182,095)
Net Financing Sources (Uses)	(925,749)	(2,095)
NET CHANGE IN FUND BALANCES	2,074,380	(66,938)
Fund Balance - Beginning	6,524,243	172,236
Fund Balance - Ending	\$ 8,598,623	\$ 105,298

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

Special Reserve Non-Capital Fund	Capital Facilities Fund	Special Reserve Capital Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 1,295,044	\$ 57,063,409
-	-	5,303	209,300	9,077,307
-	-	-	2,659,136	12,992,112
177,985	3,228,102	91,915	2,328,861	8,421,767
<u>177,985</u>	<u>3,228,102</u>	<u>97,218</u>	<u>6,492,341</u>	<u>87,554,595</u>
-	-	-	1,331,293	45,576,213
-	-	-	99,024	1,171,567
-	-	-	-	960,916
-	-	-	477,375	7,149,998
-	-	-	114,764	1,681,243
-	-	-	12,840	2,905,538
-	-	-	47,927	4,166,604
-	-	-	-	673,069
-	34,416	-	102,800	3,965,728
-	476,371	-	198,650	7,612,363
-	990,531	1,221,203	3,176,602	5,436,182
-	-	-	-	1,134,001
-	-	-	-	226,731
-	-	-	-	242,306
-	-	-	1,037,577	1,042,577
-	-	-	578,970	578,970
-	1,501,318	1,221,203	7,177,822	84,524,006
<u>177,985</u>	<u>1,726,784</u>	<u>(1,123,985)</u>	<u>(685,481)</u>	<u>3,030,589</u>
1,000,000	-	2,490,399	548,810	5,522,270
(1,077,156)	-	-	(2,034,209)	(5,522,270)
<u>(77,156)</u>	<u>-</u>	<u>2,490,399</u>	<u>(1,485,399)</u>	<u>-</u>
100,829	1,726,784	1,366,414	(2,170,880)	3,030,589
11,714,313	3,853,426	5,282,573	9,628,002	37,174,793
<u>\$ 11,815,142</u>	<u>\$ 5,580,210</u>	<u>\$ 6,648,987</u>	<u>\$ 7,457,122</u>	<u>\$ 40,205,382</u>

MERCED UNION HIGH SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE DISTRICT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2005

Total Net Change in Fund Balances - Governmental Funds **\$ 3,030,589**
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:

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

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

Capital outlays	\$ 5,564,279	
Depreciation expense	<u>(2,132,622)</u>	3,431,657

Interest accrued during the year on the State School Building Loans is considered principal reduction. The amount of interest charged on the loans for the year was:

(1,611)

In the statement of activities compensated absences (vacations) is measured by the amounts earned during the year. In the governmental funds, however, expenditures for this item are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation used was more than the amounts earned by \$32,266.

32,266

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

General obligation bonds	1,035,000
State school building loans	2,577
Capital lease obligations	5,000

Interest accreted on Capital Appreciation Bonds is recognized in the statement of activities when incurred, but is not recognized in the governmental fund financial statements until it is paid.

(1,429,138)

Change in Net Assets of Governmental Activities

\$ 6,106,340

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

MERCED UNION HIGH SCHOOL DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2005**

	<u>Private-Purpose Trusts</u>		<u>Agency</u>	<u>Total</u>
	<u>Scholarships</u>	<u>Deferred Compensation</u>	<u>Student Body</u>	
ASSETS				
Deposits and investments	\$ 1,265,954	\$ 2,264,462	\$ 624,776	\$ 4,155,192
Total Assets	<u>1,265,954</u>	<u>2,264,462</u>	<u>624,776</u>	<u>4,155,192</u>
LIABILITIES				
Due to student groups and employees	-	2,264,462	624,776	2,889,238
Total Liabilities	<u>-</u>	<u>2,264,462</u>	<u>624,776</u>	<u>2,889,238</u>
NET ASSETS				
Reserved for scholarships	1,265,954	-	-	1,265,954
Total Net Assets	<u>\$ 1,265,954</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,265,954</u>

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

MERCED UNION HIGH SCHOOL DISTRICT

FIDUCIARY FUNDS

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2005**

	Private-Purpose Trusts	
	Scholarships	Deferred Compensation
ADDITIONS		
Trust income	\$ 376,018	\$ -
Interest	24,704	624,776
Total Additions	<u>400,722</u>	<u>624,776</u>
DEDUCTIONS		
Scholarships awarded	401,158	
Administrative	40,425	
Miscellaneous	11	624,776
Total Deductions	<u>441,594</u>	<u>624,776</u>
Change in Net Assets	(40,872)	-
Net Assets - Beginning	1,306,826	-
Net Assets - Ending	<u>\$ 1,265,954</u>	<u>\$ -</u>

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

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Merced Union High School District was established in 1915 and comprises the area of approximately 625 square miles located in Merced County. The District operates under a locally-elected five-member Board form of government and provides educational services to grades 9 - 12 as mandated by the State and/or Federal agencies. The District is currently operating schools in the cities of Atwater, Livingston and Merced. The City of Merced has three campuses. Merced High School and Golden Valley High Schools have classes at the ninth through twelfth grade levels. East Campus Educational Center (ECEC) supports four educational programs: Yosemite High School which serves as the District's continuation school; Independence High School which provides independent study opportunities; classes for students from Merced and Golden Valley High School; and the main facility for the Adult School Program is located at ECEC. The City of Atwater has two campuses. Atwater High School has classes at the ninth through twelfth grade levels. Buhach Colony High School opened in August of 2001 with classes at the ninth through twelfth grade levels.

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

Component Units

Component units are legally separate organizations for which the District may be financially accountable. Component units may include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units may be other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. The District has no component units.

Other Related Entities

Joint Powers Agencies and Public Entity Risk Pools The District is associated with three public entity risk pools. These organizations do not meet the criteria for inclusion as component units of the District. Additional information is presented in Note 15 to the financial statements. These organizations are:

Self-Insured Schools of California Health and Welfare Program
Self-Insured Schools of California Property and Liability Program
Merced County Schools Insurance Group

Basis of Presentation - Fund Accounting

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

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

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

Major Governmental Funds

General Fund The General Fund 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.

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

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

Capital 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).

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

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:

Adult Education Fund The Adult Education Fund is used to account for resources committed to adult education programs maintained by the District.

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

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

Pupil Transportation Equipment Fund The Pupil Transportation Equipment Fund is used to account for resources committed to the acquisition, rehabilitation, or replacement of equipment used to transport students.

Retiree Benefits Fund The Retiree Benefits Fund is used to account for contributions for employees' retirement benefits payments.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

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.

Tax Override Fund The Tax Override Fund is used for the repayment of voted indebtedness tax levies to be financed from ad valorem tax levies.

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:

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.

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

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into two classifications: private-purpose trust funds and agency funds.

Trust funds are used to account for the assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's trust funds are scholarship and deferred compensation accounts. 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).

Basis of Accounting - Measurement Focus

Government-Wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each governmental function. Direct expenses are those that are specifically associated with a service, program, or department and are therefore, clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the Statement of Activities, except for depreciation. 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 or business segment is self-financing or draws from the general revenues of the District.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

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

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

Governmental Funds All governmental funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide financial 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 90 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.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

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

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

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Principal and interest on 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.

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.

Investments

Investments held at June 30, 2005, 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.

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.

Stores Inventory

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

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the District. The District maintains a capitalization threshold of \$5,000. 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.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

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

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

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities columns of the statement of net assets.

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 as long-term debt. For governmental funds, the current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year end that have not yet been paid with expendable available financial resources. These amounts are reported in the fund from which the employees who have accumulated leave are paid.

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

Accrued Liabilities and Long-Term Obligations

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

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

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

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.

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.

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. The government-wide financial statements reports \$32,481,326 of restricted net assets, of which \$14,017,197 is restricted by enabling legislation.

Interfund Activity

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

Estimates

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

Budgetary Data

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

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

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

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 Merced bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

Changes in Accounting Principles

In March 2003, the Governmental Accounting Standards Board (GASB) issued GASBS No. 40, *Deposit and Investment Risk Disclosures an amendment of GASB Statement No. 3*. This Statement addressed common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this Statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in the Statement also should be disclosed. As such, the District has made the applicable required disclosures.

New Accounting Pronouncements

In November 2003, GASB issued GASBS No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This Statement establishes guidance for accounting and reporting for impairment of capital assets and for insurance recoveries, whether associated with an impaired capital asset or not. This Statement is effective for periods beginning after December 31, 2004, or during the 2005-06 fiscal year. The District has implemented this pronouncement.

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

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

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

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

In December 2004, GASB issued GASBS No. 46, *Net Assets Restricted by Enabling Legislation*. This Statement clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government, such as citizens, public interest groups, or the judiciary, can compel a government to honor. The Statement states that the legal enforceability of an enabling legislation restriction should be reevaluated if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if a government has other cause for reconsideration. Although the determination that a particular restriction is not legally enforceable may cause a government to review the enforceability of other restrictions, it should not necessarily lead a government to the same conclusion for all enabling legislation restrictions.

This Statement also specifies the accounting and financial reporting requirements if new enabling legislation replaces existing enabling legislation or if legal enforceability is reevaluated. Finally, this Statement requires governments to disclose the portion of total net assets that is restricted by enabling legislation. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2005. The District has implemented this pronouncement.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2005, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 38,580,305
Fiduciary funds	4,155,192
Total Deposits and Investments	<u>\$ 42,735,497</u>

Deposits and investments as of June 30, 2005, consist of the following:

Cash on hand and in banks	\$ 1,891,128
Cash in revolving	20,720
Investments	40,823,649
Total Deposits and Investments	<u>\$ 42,735,497</u>

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

Policies and Practices

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

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

General Authorizations

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

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

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury that purchases a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Segmented Time Distribution

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following schedule that shows the distribution of the District's investments by maturity:

<u>Investment Type</u>	<u>Fair Value</u>	<u>12 Months or Less</u>	<u>13 - 24 Months</u>	<u>25 - 60 Months</u>	<u>More Than 60 Months</u>
Mutual Funds	\$ 2,264,462	\$ 2,264,462	\$ -	\$ -	\$ -
County Pool	38,559,187	38,559,187	-	-	-
Total	<u>\$40,823,649</u>	<u>\$40,823,649</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of the year-end for each investment type.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Minimum Legal Rating</u>	<u>Not Required to Be Rated</u>	<u>Rating as of Year End</u>		
				<u>AAA</u>	<u>Aa</u>	<u>Unrated</u>
Mutual Funds	\$ 2,264,462	N/A	\$ 2,264,462	\$ -	\$ -	\$ -
County Pool	38,559,187	N/A	-	-	-	38,559,187
Total	<u>\$40,823,649</u>		<u>\$ 2,264,462</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$38,559,187</u>

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government code. Investments in any one issuer that represent five percent or more of the total investments are as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
Various	Mutual Funds	<u>\$ 2,264,462</u>

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2005, the District's bank balance of \$1,475,820 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

Custodial Credit Risk - Investments

This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. Of the investment in mutual funds of \$2,264,462 the District has a custodial credit risk exposure of \$2,264,462 because the related securities are uninsured, unregistered and held by the brokerage firm which is also the counterparty for these securities. The District does not have a policy limiting the amount of securities that can be held by counterparties.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2005, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total
Federal Government				
Categorical aid	\$ 1,348,176	\$ -	\$ 81,168	\$ 1,429,344
State Government				
Apportionment	3,345,561	-	84,965	3,430,526
Categorical aid	613,990	-	67,441	681,431
Local Sources	1,106,846	65,328	356,560	1,528,734
Total	<u>\$ 6,414,573</u>	<u>\$ 65,328</u>	<u>\$ 590,134</u>	<u>\$ 7,070,035</u>

MERCED UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
Governmental Activities				
Capital Assets not being depreciated				
Land	\$ 3,117,000	\$ -	\$ -	\$ 3,117,000
Construction in progress	11,612,429	3,546,539	7,819,728	7,339,240
Total Capital Assets Not Being Depreciated	<u>14,729,429</u>	<u>3,546,539</u>	<u>7,819,728</u>	<u>10,456,240</u>
Capital Assets being depreciated				
Land improvements	13,872,080	8,136	-	13,880,216
Buildings and improvements	52,552,670	8,938,924	-	61,491,594
Furniture and equipment	8,821,885	890,408	-	9,712,293
Total Capital Assets Being Depreciated	<u>75,246,635</u>	<u>9,837,468</u>	<u>-</u>	<u>85,084,103</u>
Less Accumulated Depreciation				
Land improvements	7,190,568	352,285	-	7,542,853
Buildings and improvements	19,831,937	1,267,067	-	21,099,004
Furniture and equipment	6,473,970	513,270	-	6,987,240
Total Accumulated Depreciation	<u>33,496,475</u>	<u>2,132,622</u>	<u>-</u>	<u>35,629,097</u>
Governmental Activities Capital Assets, Net	<u>\$ 56,479,589</u>	<u>\$ 11,251,385</u>	<u>\$ 7,819,728</u>	<u>\$ 59,911,246</u>

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
Instruction	\$ 1,378,596
Instructional library, media, and technology	89,086
School site administration	112,468
Home-to-school transportation	166,179
Food services	73,520
All other pupil services	57,533
Data processing	9,562
All other general administration	3,723
Plant services	241,955
Total Depreciation Expenses Governmental Activities	<u>\$ 2,132,622</u>

MERCED UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 5 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances at June 30, 2005, are as follows:

	Interfund Receivables	Interfund Payables
General	\$ 1,416,417	\$ 17,527
Adult	-	105,930
Child Development	-	25,909
Cafeteria	2	230,913
Deferred Maintenance	-	645
Special Reserve - Other than Capital Outlay	-	1,077,156
Building	25,344	-
Capital Facilities	17,209	60
County School Facilities	5,303	832
Special Reserve - Capital Outlay	-	5,303
Total	\$ 1,464,275	\$ 1,464,275

Operating Transfers

Interfund transfers for the year ended June 30, 2005, consisted of the following:

The General Fund transferred to the Deferred Maintenance Fund for the required State match.	\$ 280,000
The General Fund transferred to the Child Development Fund for a temporary loan.	158,810
The General Fund transferred to the Cafeteria Fund for a temporary loan.	180,000
The General Fund transferred to the Special Reserve - Other than Capital Outlay Fund to fund special projects.	1,000,000
The General Fund transferred to the Special Reserve - Capital Outlay Fund for future capital projects.	500,000
The General Fund transferred to the Pupil Transportation Fund for a temporary loan.	110,000
The Special Reserve - Other than Capital Outlay Fund transferred to the General Fund to fund special projects.	1,077,156
The County School Facilities transferred to the Special Reserve - Capital Outlay Fund for future capital projects.	1,990,399
The Child Development Fund transferred to the General Fund to pay back a temporary loan.	43,810
The Cafeteria Fund transferred to the General Fund to pay back temporary loan.	182,095
Total	\$ 5,522,270

MERCED UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2005, consisted of the following:

	General Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total
Vendor payables	\$ 755,535	\$ 490,793	\$ 606,720	\$ 1,853,048
State apportionment	1,624,299	-	-	1,624,299
Accrued Payroll	33,811	-	-	33,811
STRS - Golden Handshake	1,077,156	-	-	1,077,156
Total	<u>\$ 3,490,801</u>	<u>\$ 490,793</u>	<u>\$ 606,720</u>	<u>\$ 4,588,314</u>

NOTE 7 - DEFERRED REVENUE

Deferred revenue at June 30, 2005, consists of the following:

	General Fund	Non-Major Governmental Funds	Total
Federal financial assistance	\$ 511,466	\$ 31,537	\$ 543,003
State categorical aid	547,845	-	547,845
Total	<u>\$ 1,059,311</u>	<u>\$ 31,537</u>	<u>\$ 1,090,848</u>

NOTE 8 - LONG-TERM LIABILITIES

Long-Term Debt Summary

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

	Balance July 1, 2004	Additions and Deductions		Balance June 30, 2005	Due in One Year
1999 Current Interest Bonds, Series A	\$12,765,000	\$ -	\$1,035,000	\$ 11,730,000	\$ 1,200,000
1999 Capital Appreciation Bonds, Series A	12,144,258	1,429,138	-	13,573,396	-
State school building loans	10,579	1,611	2,577	9,613	2,577
Accumulated vacation - net	68,565	-	32,266	36,299	36,299
Capital leases	126,182	-	5,000	121,182	20,740
Total	<u>\$25,114,584</u>	<u>\$ 1,430,749</u>	<u>\$1,074,843</u>	<u>\$ 25,470,490</u>	<u>\$ 1,259,616</u>

MERCED UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Bond Issue	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2004	Accreted/ (Redeemed)	Bonds Outstanding June 30, 2005
Current Interest							
Series A	08/01/99	08/01/12	4.5 to 5.5%	\$ 12,765,000	\$ 12,765,000	\$ (1,035,000)	\$ 11,730,000
Capital Appreciation							
Series A	08/01/12	08/01/24	5.4 to 5.75%	12,144,258	12,144,258	1,429,138	13,573,396
Total				<u>\$ 24,909,258</u>	<u>\$ 24,909,258</u>	<u>\$ 394,138</u>	<u>\$ 25,303,396</u>

The Merced Union High School District 1999 General Obligation Bonds, Series A, in the aggregate principal amount of \$24,631,061, are being issued by the Board of Supervisors of the County of Merced on behalf of the Merced Union High School District. The Series A Bonds represent a general obligation of the District, payable solely from *ad valorem* property taxes levied and collected by the County of Merced.

Interest with respect to the Current Interest Series A Bonds accrues from August 1, 1999, and is payable semiannually commencing February 1, 2000. The Capital Appreciation Series A Bonds are dated the date of delivery of the Series A Bonds and accrete interest from such date, compounded semiannually on February 1 and August 1 of each year, commencing February 1, 2000. Both series are issuable as fully registered Series A bonds.

Debt Service Requirements to Maturity

1999 Current Interest, Series A - Payment Summary

The bonds mature through 2013 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2006	\$ 1,120,000	\$ 530,458	\$ 1,650,458
2007	1,205,000	478,145	1,683,145
2008	1,300,000	421,783	1,721,783
2009	1,400,000	360,333	1,760,333
2010	1,500,000	293,633	1,793,633
2011-2013	5,205,000	409,636	5,614,636
Total	<u>\$ 11,730,000</u>	<u>\$ 2,493,988</u>	<u>\$ 14,223,988</u>

MERCED UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

1999 Capital Appreciation, Series A - Accretion Summary:

<u>Maturity</u>	<u>Accreted Obligation</u>	<u>Accretion To Date</u>	<u>Unaccreted Interest</u>	<u>Final Maturity</u>
2014	\$ 1,377,200	\$ 287,040	\$ 622,800	\$ 2,000,000
2015	1,325,160	279,981	719,840	2,045,000
2016	1,276,990	271,679	813,010	2,090,000
2017	1,231,784	263,841	908,216	2,140,000
2018	1,183,833	255,252	1,001,167	2,185,000
2019	1,138,509	247,124	1,096,491	2,235,000
2020	1,096,343	238,851	1,188,657	2,285,000
2021	1,060,956	231,192	1,279,044	2,340,000
2022	1,021,008	223,083	1,368,992	2,390,000
2023	987,291	215,649	1,457,709	2,445,000
2024	953,500	208,325	1,546,500	2,500,000
2025	920,822	201,181	1,634,178	2,555,000
Total	<u>\$ 13,573,396</u>	<u>\$ 2,923,198</u>	<u>\$ 13,636,604</u>	<u>\$ 27,210,000</u>

State and Public School Building Loans

State school building loans outstanding as of June 30, 2005, are as follows:

<u>Year Disbursed</u>	<u>Interest Rate</u>	<u>Balance July 1, 2004</u>	<u>Interest Charge</u>	<u>Repayment and State Credit Current Year</u>	<u>Outstanding June 30, 2005</u>
1986-87	4.80%	<u>\$ 10,579</u>	<u>\$ 1,611</u>	<u>\$ 2,577</u>	<u>\$ 9,613</u>

The State and Public School Building Loans are secured by all sites purchased and improved, all equipment purchased, and all buildings constructed, reconstructed, altered, or added to through the expenditure of such funds in accordance with Section 16019 of the Education Code.

Annual repayment is determined by the State Controller in accordance with Section 16214 of the Education Code.

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2005, amounted to \$36,299.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

Capital Leases

The District has entered into various capital lease arrangements at June 30, 2005. The District's liability on lease agreements with options to purchase are summarized below:

Balance, July 1, 2004	\$ 126,182
Additions	-
Payments	5,000
Balance, June 30, 2005	<u>\$ 121,182</u>

The capital leases have minimum lease payments as follows:

<u>Year Ending June 30,</u>	<u>Lease Payment</u>
2006	\$ 24,859
2007	20,271
2008	19,682
2009	19,094
2010	18,506
2011-2012	35,246
Total	<u>137,658</u>
Less: Amount Representing Interest	16,476
Present Value of Minimum Lease Payments	<u>\$ 121,182</u>

MERCED UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 9 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Special Reserve Non-Capital Fund	Capital Facilities Fund	Special Reserve Capital Fund	Non-Major Governmental Funds	Total
Reserved						
Revolving cash	\$ 20,000	\$ -	\$ -	\$ -	\$ 720	\$ 20,720
Stores inventory	176,051	-	-	-	58,153	234,204
General reserve	-	-	-	-	-	-
Restricted programs	1,190,793	-	-	-	-	1,190,793
Total Reserved	1,386,844	-	-	-	58,873	1,445,717
Unreserved						
Designated						
Economic uncertainties	2,190,744	-	-	-	-	2,190,744
Other designation	5,021,035	11,679,401	5,580,210	6,648,987	4,847,228	33,776,861
Total Designated	7,211,779	11,679,401	5,580,210	6,648,987	4,847,228	35,967,605
Undesignated	-	135,741	-	-	2,656,319	2,792,060
Total Unreserved	7,211,779	11,815,142	5,580,210	6,648,987	7,503,547	38,759,665
Total	\$8,598,623	\$11,815,142	\$5,580,210	\$6,648,987	\$ 7,562,420	\$40,205,382

NOTE 10 - EXPENDITURES (BUDGET VERSUS ACTUAL)

At June 30, 2005, the following District major funds exceeded the budgeted amount as follows:

Funds	Expenditures and Other Uses		
	Budget	Actual	Excess
General Fund			
Classified Salaries	\$ 10,251,570	\$ 10,329,603	\$ 78,033
Employee Benefits	\$ 15,203,170	\$ 16,618,282	\$ 1,415,112
Cafeteria			
Classified Salaries	\$ 815,843	\$ 882,599	\$ 66,756
Books and supplies	\$ 1,213,584	\$ 1,309,391	\$ 95,807
Services and operating expenditures	\$ 280,925	\$ 295,422	\$ 14,497
Other outgo	\$ 142,472	\$ 172,138	\$ 29,666

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

NOTE 11 - POSTEMPLOYMENT BENEFITS

The District provides postemployment health care benefits, in accordance with District employment contracts, to all employees who retire from the District on or after attaining age 55 with at least ten years of service. Currently, 91 employees meet those eligibility requirements. The District contributes a negotiated portion of the amount of premiums incurred by retirees and their dependents and the retiree contributes the remainder. Expenditures for postemployment benefits are recognized on a pay-as-you-go basis, as retirees report claims/(premiums are paid). During the year, expenditures of \$1,170,678 were recognized for retirees' health care benefits.

The approximate accumulated future liability for the District at June 30, 2005, amounts to \$15,400,866. The estimated liability is based on an actuarial study performed during 2003.

NOTE 12 - RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2005, the District contracted with Self Insured Schools of California for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

Workers' Compensation

For fiscal year 2005, the District participated in the Merced County Schools Insurance Group, an insurance purchasing pool. The intent of the Merced County Schools Insurance Group is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Merced County Schools Insurance Group. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in the Merced County Schools Insurance Group. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage. A participant will then either receive money from or be required to contribute to the "equity-pooling fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the Merced County Schools Insurance Group. Participation in the Merced County Schools Insurance Group is limited to districts that can meet the Merced County Schools Insurance Group selection criteria.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

Coverage provided by MCSIG for property and liability and workers' compensation is as follows:

<u>Insurance Program / Company Name</u>	<u>Type of Coverage</u>	<u>Limits</u>
<u>Workers' Compensation Program</u>		
Merced County Schools Insurance Group	Workers' Compensation	\$ 19,000,000 per year \$ 250,000 per occurrence
<u>Excess Property and Liability Program</u>		
School Excess Liability Fund (SELF)	Excess Property and Liability	Per occurrence: \$ 25,000,000-Liability, Auto. \$ 75,000,000-Property \$ 250,000-Compreh. Crime \$ 15,000,000-Boiler and Machinery \$ 2,500-Student Accident

Employee Medical Benefits

The District has contracted with the Self Insured Schools of California Health and Welfare Program to provide employee medical and surgical benefits. Self Insured Schools of California Health and Welfare Program is a shared risk pool comprised of agencies within California. Rates are set through an annual calculation process. The District pays a monthly contribution, which is placed in a common fund from which claim payments are made for all participating Districts. Claims are paid for all participants regardless of claims flow. The Board of Directors has a right to return monies to a district subsequent to the settlement of all expenses and claims if a district withdraws from the pool.

NOTE 13 - 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).

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.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

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 year 2004-2005 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to STRS for the fiscal years ending June 30, 2005, 2004, and 2003, were \$2,792,468, \$2,624,220, and \$2,606,224, respectively, and equal 100 percent of the required contributions for each year.

PERS

Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS); a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS 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 salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2004-2005 was 9.952 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2005, 2004, and 2003, were \$999,665, \$984,159, and \$273,375, respectively, and equal 100 percent of the required contributions for each year.

Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (STRS or PERS) must be covered by social security or an alternative plan. The District has elected to use its alternative plan. Contributions made by the District and an employee vest immediately. The District contributes 6.2 percent of an employee's gross earnings. An employee is required to contribute 6.2 percent of his or her gross earnings to the pension plan.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

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 \$771,737 (4.517 percent of salaries subject to STRS). No contributions were made for PERS for the year ended June 30, 2005. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures, however, guidance received from the California Department of Education advises local educational agencies not to record these amounts in the Annual Financial and Budget Report. These amounts have not been included in the budget amounts reported in the General Fund Budgetary Schedule. These amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from Federal and State agencies in the form of grants. 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, 2005.

Litigation

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

Operating Leases

The District has entered into various operating leases for buildings and equipment with lease terms in excess of one year. None of these agreements contain purchase options. All agreements contain a termination clause providing for cancellation after a specified number of days written notice to lessors, but it is unlikely that the District will cancel any of the agreements prior to the expiration date.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

Construction Commitments

As of June 30, 2005, the District had the following commitments with respect to the unfinished capital projects:

CAPITAL PROJECT	Remaining Construction Commitment	Expected Date of Completion
Atwater High School Painting	\$ 65,689	August 2005
Golden Valley High School Portables	49,796	June 2006
Buhach Colony High School Portables	9,521	June 2006
Renovation Swimming Pool	891,085	June 2006
Merced High School Track	3,409	June 2006
Merced High School Roof	10,181	September 2005
Atwater High School Restroom	12,691	October 2005
Merced High School Restroom	990	October 2005
Buhach Colony High School Fourth Academy	4,877,369	July 2007
Atwater High School Modernization	26,813	July 2005
Bellevue Ranch	79,852,826	June 2010
Livingston High School Expansion	33,640,982	June 2010
Total	<u>\$ 119,441,352</u>	

NOTE 15 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWERS AUTHORITIES

The District is a member of the Self-Insured Schools of California (SISC III), the Self-Insured Schools of California (SISC II), and the Merced County Schools Insurance Group (MCSIG) public entity risk pools. The District pays an annual premium to each entity for its health, workers' compensation, and property liability coverage. The relationships between the District and pools are such that they are not component units of the District for financial reporting purposes.

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

The District has no appointed board members to the Governing Board of SISC III.

During the year ended June 30, 2005, the District made payment of \$10,960,855 to SISC III for medical, dental and vision insurance.

The District has no appointed board members to the Governing Board of SISC II.

During the year ended June 30, 2005, the District made payment of \$400,503 to SISC II for property and liability insurance.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

The District has appointed two board members to the Governing Board of MCSIG.

During the year ended June 30, 2005, the District made payment of \$1,125,592 to MCSIG for workers' compensation insurance.

This page left blank intentionally.

REQUIRED SUPPLEMENTARY INFORMATION

This page left blank intentionally.

MERCED UNION HIGH SCHOOL DISTRICT

GENERAL FUND
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED JUNE 30, 2005

	Budgeted Amounts		Actual (GAAP Basis)	Variances -
	(GAAP Basis)			Favorable
	Original	Final		(Unfavorable) Final to Actual
REVENUES				
Revenue limit sources	\$52,734,876	\$55,887,887	\$ 55,768,366	\$ (119,521)
Federal sources	8,030,327	8,080,315	7,119,002	(961,313)
Other state sources	7,373,014	9,391,816	9,459,876	68,060
Other local sources	560,796	876,243	1,448,877	572,634
Total Revenues	68,699,013	74,236,261	73,796,121	(440,140)
EXPENDITURES				
Current				
Certificated Salaries	32,375,599	34,257,674	33,799,211	458,463
Classified salaries	10,301,657	10,251,570	10,329,603	(78,033)
Employee benefits	14,552,331	15,203,170	16,618,282	(1,415,112)
Books and supplies	4,531,752	6,913,862	3,882,097	3,031,765
Services and operating expenditures	7,000,561	7,618,541	6,081,511	1,537,030
Other outgo	39,175	45,873	(48,208)	94,081
Capital outlay	74,600	214,438	128,496	85,942
Debt service	30,780	30,780	5,000	25,780
Total Expenditures	68,906,455	74,535,908	70,795,992	3,739,916
Excess (Deficiency) of Revenues				
Over Expenditures	(207,442)	(299,647)	3,000,129	3,299,776
Other Financing Sources (Uses):				
Transfers in	503,000	503,000	1,303,061	800,061
Transfers out	(1,005,000)	(2,505,000)	(2,228,810)	276,190
Net Financing Sources (Uses)	(502,000)	(2,002,000)	(925,749)	1,076,251
NET CHANGE IN FUND BALANCES	(709,442)	(2,301,647)	2,074,380	4,376,027
Fund Balance - Beginning	6,524,243	6,524,243	6,524,243	-
Fund Balance - Ending	\$ 5,814,801	\$ 4,222,596	\$ 8,598,623	\$ 4,376,027

MERCED UNION HIGH SCHOOL DISTRICT

**MAJOR FUND - CAFETERIA FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2005**

	Budgeted Amounts		Actual (GAAP Basis)	Variances -
	(GAAP Basis)			Favorable
	Original	Final		(Unfavorable) Final to Actual
REVENUES				
Federal sources	\$ 1,567,485	\$ 1,567,485	\$ 1,743,702	\$ 176,217
Other state sources	126,743	126,743	117,636	(9,107)
Other local sources	1,219,020	1,219,020	1,146,025	(72,995)
Total Revenues	<u>2,913,248</u>	<u>2,913,248</u>	<u>3,007,363</u>	<u>94,115</u>
EXPENDITURES				
Current				
Classified salaries	813,349	815,843	882,599	(66,756)
Employee benefits	416,369	461,299	412,657	48,642
Books and supplies	1,203,521	1,213,584	1,309,391	(95,807)
Services and operating expenditures	289,844	280,925	295,422	(14,497)
Other outgo	142,472	142,472	172,138	(29,666)
Total Expenditures	<u>2,865,555</u>	<u>2,914,123</u>	<u>3,072,207</u>	<u>(158,084)</u>
Excess (Deficiency) of Revenues				
Over Expenditures	<u>47,693</u>	<u>(875)</u>	<u>(64,844)</u>	<u>(63,969)</u>
Other Financing Sources (Uses):				
Transfers in	300,000	300,000	180,000	(120,000)
Transfers out	<u>(303,000)</u>	<u>(303,000)</u>	<u>(182,095)</u>	<u>120,905</u>
Net Financing Sources (Uses)	<u>(3,000)</u>	<u>(3,000)</u>	<u>(2,095)</u>	<u>905</u>
NET CHANGE IN FUND BALANCES	<u>44,693</u>	<u>(3,875)</u>	<u>(66,939)</u>	<u>(63,064)</u>
Fund Balance - Beginning	<u>172,236</u>	<u>172,236</u>	<u>172,236</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 216,929</u>	<u>\$ 168,361</u>	<u>\$ 105,297</u>	<u>\$ (63,064)</u>

MERCED UNION HIGH SCHOOL DISTRICT

**MAJOR FUND - SPECIAL RESERVE - OTHER THAN CAPITAL OUTLAY
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2005**

	Budgeted Amounts		Actual (GAAP Basis)	Variances -
	(GAAP Basis)			Favorable
	Original	Final		(Unfavorable) Final to Actual
REVENUES				
Other local sources	\$ 150,000	\$ 150,000	\$ 177,985	\$ 27,985
Total Revenues	<u>150,000</u>	<u>150,000</u>	<u>177,985</u>	<u>27,985</u>
EXPENDITURES				
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>150,000</u>	<u>150,000</u>	<u>177,985</u>	<u>27,985</u>
Other Financing Sources (Uses):				
Transfers in	-	1,000,000	1,000,000	-
Transfers out			(1,077,156)	1,077,156
Net Financing Sources (Uses)	<u>-</u>	<u>1,000,000</u>	<u>(77,156)</u>	<u>1,077,156</u>
NET CHANGE IN FUND BALANCES	<u>150,000</u>	<u>1,150,000</u>	<u>100,829</u>	<u>1,105,141</u>
Fund Balance - Beginning	<u>11,714,313</u>	<u>11,714,313</u>	<u>11,714,313</u>	<u>-</u>
Fund Balance - Ending	<u>\$11,864,313</u>	<u>\$12,864,313</u>	<u>\$ 11,815,142</u>	<u>\$ 1,105,141</u>

This page left blank intentionally.

SUPPLEMENTARY INFORMATION

This page left blank intentionally.

MERCED UNION HIGH SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
Adult Education - Priority 1-3	84.002A	13802	\$ 97,667
Adult Education - Priority 5	84.002A	13978	13,412
Adult Education - English Literacy	84.002A	13303	82,101
Title IV- Drug Free Schools	84.186	14347	70,006
No Child Left Behind			
Title I - Basic [1]	84.010	14329	3,177,080
Title II - Teacher Quality	84.367	14341	526,620
Title II - Enhancing Education through Technology	84.318	14334	91,703
Title V - Innovative Strategies	84.298A	14354	186,689
Title III - LEP	84.365	10084	174,421
Gear Up Program [1]	84.334	14362	697,969
Advanced Placement Fee Assistance	84.330A	13917	30,973
Special Education - State Grants			
Local Assistance	84.027	13379	1,603,649
Vocational Educational Grants [1]			
Vocational & Applied Technology	84.048	13577	387,682
Postsecondary and Adult Literacy	84.048	13578	8,089
Passed through the Office of Public School Construction			
Federal Renovation Assistance	84.352A	14318	5,303
Total U.S. Department of Education			<u>7,153,364</u>
U.S. DEPARTMENT OF LABOR			
Passed through CDE:			
Workforce Investment Act	17.255	13422	<u>104,451</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through CDE:			
Child Nutrition School Programs-Lunch and Breakfast	10.556	14198	1,743,702
Child Nutrition School Programs-Family Day Care	10.558	13665	<u>6,862</u>
Total U.S. Department of Agriculture			<u>1,750,564</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through CDE:			
Infant & Toddler Childcare	93.575	13942	1,168
Medi-Cal	93.778	10013	67,760
Total U.S. Department of Agriculture			<u>68,928</u>
Total Federal Financial Assistance			<u>\$ 9,077,307</u>

[1] Major program under OMB Circular A-133 guidelines.

See accompanying note to supplementary information.

MERCED UNION HIGH SCHOOL DISTRICT

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2005**

	Second Period Report	Annual Report
SECONDARY		
Regular classes	9,043	8,990
Continuation education	212	205
Home and hospital	5	6
Special education	237	236
Community Day	5	5
Total Secondary	9,502	9,442
CLASSES FOR ADULTS		
Concurrently enrolled	47	47
Not concurrently enrolled	520	558
Total Classes for Adults	567	605
Grand Total	10,069	10,047
		<u>Hours of Attendance</u>
SUPPLEMENTAL HOURS		
K-12 core instruction		3,347
7-12 remedial instruction		281,524
Total Hours		284,871

See accompanying note to supplementary information.

MERCED UNION HIGH SCHOOL DISTRICT

**SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2005**

<u>Grade Level</u>	1982-83	1986-87	2004-05	<u>Number of Days</u>		<u>Status</u>
	<u>Actual Minutes</u>	<u>Minutes Requirement</u>	<u>Actual Minutes</u>	<u>Traditional Calendar</u>	<u>Multitrack Calendar</u>	
Grades 9 - 12	61,195	64,800	64,823	180	N/A	Complied

See accompanying note to supplementary information.

MERCED UNION HIGH SCHOOL DISTRICT

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2005

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2005.

Summarized below are the Form Debt reconciliations between the Unaudited Actual Financial Report, and the audited financial statements:

	<u>General Long- Term Debt Account Group</u>
GENERAL LONG-TERM LIABILITIES	
Total Liabilities, June 30, 2005, Unaudited Actuals	\$ 40,871,355
Adjustments	
Decrease in:	
Postemployment benefits	<u>(15,400,865)</u>
Total Liabilities, June 30, 2005, Unaudited Actuals	
Audited Financial Statement	<u>\$ 25,470,490</u>

See accompanying note to supplementary information.

MERCED UNION HIGH SCHOOL DISTRICT

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005**

	(Budget) 2006 ¹	2005 ⁴	2004 ⁴	2003 ⁴
GENERAL FUND				
Revenues	\$ 75,636,961	\$ 73,796,121	\$ 66,754,308	\$ 65,328,045
Other sources and transfers in	503,000	1,303,061	328,331	2,292,689
Total Revenues and Other Sources	<u>76,139,961</u>	<u>75,099,182</u>	<u>67,082,639</u>	<u>67,620,734</u>
Expenditures	72,687,673	70,795,992	64,179,968	62,578,760
Other uses and transfers out	4,155,000	2,228,810	5,657,400	2,554,000
Total Expenditures and Other Uses	<u>76,842,673</u>	<u>73,024,802</u>	<u>69,837,368</u>	<u>65,132,760</u>
INCREASE/(DECREASE) IN FUND BALANCE	<u>\$ (702,712)</u>	<u>\$ 2,074,380</u>	<u>\$ (2,754,729)</u>	<u>\$ 2,487,974</u>
ENDING FUND BALANCE	<u>\$ 7,895,911</u>	<u>\$ 8,598,623</u>	<u>\$ 6,524,243</u>	<u>\$ 9,278,972</u>
AVAILABLE RESERVES²	<u>\$ 2,305,280</u>	<u>\$ 2,326,485</u>	<u>\$ 2,309,100</u>	<u>\$ 2,076,522</u>
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	<u>3.00%</u>	<u>3.19%</u>	<u>3.31%</u>	<u>3.19%</u>
LONG-TERM DEBT	<u>N/A</u>	<u>\$ 25,470,490</u>	<u>\$ 25,114,584</u>	<u>\$ 39,393,274</u>
AVERAGE DAILY ATTENDANCE AT P-2³	<u>9,794</u>	<u>9,502</u>	<u>9,040</u>	<u>8,832</u>

The General Fund balance has decreased by \$680,349 over the past two years. The fiscal year 2005-06 budget projects a further decrease of \$702,712 (8.17 percent). For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in two of the past three years but anticipates incurring an operating deficit during the 2005-06 fiscal year. Total long-term debt has decreased by \$13,922,784 over the past two years.

Average daily attendance has increased by 670 ADA over the past two years. Additional growth of 292 ADA is anticipated during fiscal year 2005-06.

1 Budget 2006 is included for analytical purposes only and has not been subjected to audit.

2 Available reserves consist of all undesignated fund balances and all funds designated for economic uncertainty contained within the General Fund and Special Reserve Fund (other than capital outlay).

3 Excludes Adult Education ADA.

4 On behalf payments have been excluded from this schedule.

See accompanying note to supplementary information.

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2005

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

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

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

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

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

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

SUPPLEMENTARY INFORMATION - UNAUDITED

This page left blank intentionally.

MERCED UNION HIGH SCHOOL DISTRICT

**GENERAL FUND SELECTED FINANCIAL INFORMATION
THREE-YEAR SUMMARY OF REVENUES, EXPENDITURES AND
CHANGES OF FUND BALANCE - UNAUDITED
FOR THE YEAR ENDED JUNE 30, 2005**

(Dollar amounts in thousands)

	Actual Results for the Years					
	2004-2005 ¹		2003-2004 ¹		2002-2003 ¹	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Amount	Percent of Revenue
REVENUES						
Federal revenue	\$ 7,119	9.6	\$ 6,088	9.1	\$ 4,531	6.9
State and local revenue included in revenue limit	55,768	75.6	50,655	75.9	50,128	76.7
Other state revenue	9,460	12.8	9,024	13.5	9,757	14.9
Other local revenue	1,449	2.0	987	1.5	912	1.4
Total Revenues	<u>73,796</u>	<u>100.0</u>	<u>66,754</u>	<u>100.0</u>	<u>65,328</u>	<u>100.0</u>
EXPENDITURES						
Salaries and Benefits						
Certificated salaries	33,799	45.8	31,332	46.9	31,022	47.5
Classified salaries	10,330	14.0	9,914	14.9	9,961	15.2
Employee benefits	16,618	22.5	13,106	19.6	12,293	18.8
Total Salaries and Benefits	60,747	82.3	54,352	81.4	53,276	81.6
Books and supplies	3,882	5.3	3,735	5.6	3,236	5.0
Contracts and operating expenses	6,082	8.2	5,742	8.6	5,003	7.7
Capital outlay	128	0.2	207	0.3	907	1.4
Debt service	5	0.0	21	0.0	26	0.0
Other outgo	(48)	(0.1)	123	0.2	131	0.2
Total Expenditures	<u>70,796</u>	<u>95.9</u>	<u>64,180</u>	<u>96.1</u>	<u>62,579</u>	<u>95.8</u>
EXCESS OF REVENUES OVER/ (UNDER) EXPENDITURES	<u>3,000</u>	<u>4.06526</u>	<u>2,574</u>	<u>3.9</u>	<u>2,749</u>	<u>4.2</u>
OTHER FINANCING SOURCES/(USES)						
Operating transfers in	1,303	1.8	328	0.5	2,293	3.5
Operating transfers out	(2,229)	(3.0)	(5,657)	(8.5)	(2,554)	(3.9)
Total Other Financing Sources/(Uses)	<u>(926)</u>	<u>(1.3)</u>	<u>(5,329)</u>	<u>(8.0)</u>	<u>(261)</u>	<u>(0.4)</u>
INCREASE/(DECREASE) IN FUND BALANCE	<u>2,074</u>	<u>2.8</u>	<u>(2,755)</u>	<u>(4.1)</u>	<u>2,488</u>	<u>3.8</u>
FUND BALANCE, BEGINNING	6,524		9,279		6,791	
FUND BALANCE, ENDING	<u>\$ 8,598</u>		<u>\$ 6,524</u>		<u>\$ 9,279</u>	
ENDING FUND BALANCE TO TOTAL REVENUES		<u>11.7</u>		<u>9.8</u>		<u>14.2</u>
BASE REVENUE LIMIT PER ADA						
Regular 9-12	<u>\$ 5,738</u>		<u>\$ 5,584</u>		<u>\$ 5,482</u>	

¹ Excludes State STRS on behalf payments.

See accompanying note to supplementary information - unaudited.

MERCED UNION HIGH SCHOOL DISTRICT

**CAFETERIA ACCOUNT SELECTED FINANCIAL INFORMATION
THREE-YEAR SUMMARY OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - UNAUDITED
FOR THE YEAR ENDED JUNE 30, 2005**

(Dollar amounts in thousands)

	Actual Results for the Years					
	2004-2005		2003-2004		2002-2003	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Amount	Percent of Revenue
REVENUES						
Federal - NSLP	\$ 1,744	58.0	\$ 1,581	55.7	\$ 1,388	52.1
State meal program	117	3.9	105	3.7	99	3.7
Food sales	1,146	38.1	1,152	40.6	1,179	44.2
Total Revenues	<u>3,007</u>	<u>100.0</u>	<u>2,838</u>	<u>100.0</u>	<u>2,666</u>	<u>100.0</u>
EXPENDITURES						
Salaries and employee benefits	1,295	43.1	1,227	43.2	1,144	42.9
Food and Supplies	1,309	43.5	1,237	43.6	1,183	44.4
Other	468	15.6	285	10.0	300	11.3
Total Expenditures	<u>3,072</u>	<u>102.2</u>	<u>2,749</u>	<u>96.9</u>	<u>2,627</u>	<u>98.5</u>
EXCESS OF REVENUES OVER/ (UNDER) EXPENDITURES	<u>(65)</u>	<u>(2.2)</u>	<u>89</u>	<u>3.1</u>	<u>39</u>	<u>1.5</u>
OTHER FINANCING SOURCES/(USES)						
Transfers in	180	6.0	230	8.1	24	0.9
Transfers out	<u>(182)</u>	<u>(6.1)</u>	<u>(234)</u>	<u>(8.2)</u>	<u>(24)</u>	<u>(0.9)</u>
Total Other Financing Sources (Uses)	<u>(2)</u>	<u>(0.1)</u>	<u>(4)</u>	<u>(0.1)</u>	<u>-</u>	<u>-</u>
INCREASE/(DECREASE) IN FUND BALANCE	<u>(67)</u>	<u>(2.2)</u>	<u>85</u>	<u>3.0</u>	<u>39</u>	<u>0.0</u>
FUND BALANCE, BEGINNING	<u>172</u>		<u>87</u>		<u>48</u>	
FUND BALANCE, ENDING	<u>\$ 105</u>		<u>\$ 172</u>		<u>\$ 87</u>	

* * * * *

TYPE 'A' LUNCH PARTICIPATION

	2004-2005		2003-2004		2002-2003	
	Amount	Percent	Amount	Percent	Amount	Percent
TYPE 'A' LUNCHES						
Paid	20,169	3.1	16,325	2.8	22,032	4.0
Reduced price	105,613	16.2	91,133	15.7	80,166	14.5
Free	525,213	80.7	471,424	81.4	452,513	81.6
Total Lunches	<u>650,995</u>	<u>100.0</u>	<u>578,882</u>	<u>100.0</u>	<u>554,711</u>	<u>100.0</u>

See accompanying note to supplementary information - unaudited.

MERCED UNION HIGH SCHOOL DISTRICT

**PRIVATE-PURPOSE SCHOLARSHIP TRUST FUNDS
COMBINING STATEMENT OF NET ASSETS - UNAUDITED
JUNE 30, 2005**

ASSETS	<u>Scholarships</u>
Deposits and investments	<u>\$ 1,265,954</u>
Total Cash and Assets	<u>\$ 1,265,954</u>
LIABILITIES	
Liabilities	<u>-</u>
NET ASSETS	
Reserved for scholarships	
Acker Scholarship	19,481
Alvernaz Scholarship	20,413
Beal Scholarship	10,169
Callister Scholarship	3,443
Cavaiani Scholarship	11,422
Chamberlain Scholarship	16,298
Landram Scholarship	26,519
Montano Scholarship	6,809
Mudd Scholarship	21,463
Okuda Scholarship	10,931
Roberts Scholarship	8,070
Roveto Scholarship	170,288
AARP Scholarship	8,795
Barnes Scholarship	8,086
Bloss Scholarship	570,790
Brown Scholarship	18,289
Church Scholarship	11,987
Elam Scholarship	1,107
Fancher Scholarship	62,980
Fite Scholarship	2,345
Jackson Scholarship	3,481
Joyner Scholarship	109
Kiwanis Scholarship	1,414
Lockwood Scholarship	8,428
Martinelli Scholarship	468
McPherson-Hanson Scholarship	121
Mitchell Scholarship	529
Moberly Scholarship	5,841
Newhall Scholarship	32,006
Prince Scholarship	156,745
Rohm Scholarship	(699)
Crookham Scholarship	3,384
Lau Scholarship	9,447
Souza Scholarship	11,649
Sodexo Scholarship	6
Dallas Scholarship	23,340
Total Net Assets Reserved for Scholarships	<u>\$ 1,265,954</u>

See accompanying note to supplementary information - unaudited.

MERCED UNION HIGH SCHOOL DISTRICT

**PRIVATE-PURPOSE SCHOLARSHIP TRUST FUNDS
COMBINING STATEMENT OF CHANGES IN NET ASSETS - UNAUDITED
FOR THE YEAR ENDED JUNE 30, 2005**

	<u>Acker Scholarship</u>	<u>Alvernaz Scholarship</u>	<u>Beal Scholarship</u>	<u>Callister Scholarship</u>	<u>Cavaiani Scholarship</u>
ADDITIONS					
Trust income	\$ -	\$ -	\$ -	\$ -	\$ 101
Interest income	253	235	117	37	107
Total Additions	<u>253</u>	<u>235</u>	<u>117</u>	<u>37</u>	<u>208</u>
DEDUCTIONS					
Scholarships awarded	1,875	500	500	300	900
Miscellaneous	-	-	-	-	-
Total Deductions	<u>1,875</u>	<u>500</u>	<u>500</u>	<u>300</u>	<u>900</u>
Change in Net Assets	(1,622)	(265)	(383)	(263)	(692)
Net Assets - Beginning	<u>21,103</u>	<u>20,678</u>	<u>10,552</u>	<u>3,706</u>	<u>12,114</u>
Net Assets - Ending	<u>\$ 19,481</u>	<u>\$ 20,413</u>	<u>\$ 10,169</u>	<u>\$ 3,443</u>	<u>\$ 11,422</u>

See accompanying note to supplementary information - unaudited.

<u>Chamberlain Scholarship</u>	<u>Landram Scholarship</u>	<u>Montano Scholarship</u>	<u>Mudd Scholarship</u>	<u>Okuda Scholarship</u>	<u>Roberts Scholarship</u>	<u>Roveto Scholarship</u>
\$ 5,000	\$ -	\$ 790	\$ -	\$ -	\$ -	\$ 19,941
293	312	63	250	126	71	3,965
<u>5,293</u>	<u>312</u>	<u>853</u>	<u>250</u>	<u>126</u>	<u>71</u>	<u>23,906</u>
4,375	375	(700)	375	750	-	31,500
-	1	-	-	-	-	1
<u>4,375</u>	<u>376</u>	<u>(700)</u>	<u>375</u>	<u>750</u>	<u>-</u>	<u>31,501</u>
918	(64)	1,553	(125)	(624)	71	(7,595)
<u>15,380</u>	<u>26,583</u>	<u>5,256</u>	<u>21,588</u>	<u>11,555</u>	<u>7,999</u>	<u>177,883</u>
<u>\$ 16,298</u>	<u>\$ 26,519</u>	<u>\$ 6,809</u>	<u>\$ 21,463</u>	<u>\$ 10,931</u>	<u>\$ 8,070</u>	<u>\$ 170,288</u>

MERCED UNION HIGH SCHOOL DISTRICT

**PRIVATE-PURPOSE SCHOLARSHIP TRUST FUNDS
COMBINING STATEMENT OF CHANGES IN NET ASSETS - UNAUDITED
FOR THE YEAR ENDED JUNE 30, 2005**

	<u>AARP Scholarship</u>	<u>Barnes Scholarship</u>	<u>Bloss Scholarship</u>	<u>Brown Scholarship</u>	<u>Church Scholarship</u>
ADDITIONS					
Trust income	\$ -	\$ 8,040	\$ 304,756	\$ -	\$ -
Interest income	107	46	11,678	239	138
Total Additions	<u>107</u>	<u>8,086</u>	<u>316,434</u>	<u>239</u>	<u>138</u>
DEDUCTIONS					
Scholarships awarded	875	-	342,371	11,000	500
Miscellaneous	-	-	5	1	-
Total Deductions	<u>875</u>	<u>-</u>	<u>342,376</u>	<u>11,001</u>	<u>500</u>
Change in Net Assets	(768)	8,086	(25,942)	(10,762)	(362)
Net Assets - Beginning	<u>9,563</u>	<u>-</u>	<u>596,732</u>	<u>29,051</u>	<u>12,349</u>
Net Assets - Ending	<u>\$ 8,795</u>	<u>\$ 8,086</u>	<u>\$ 570,790</u>	<u>\$ 18,289</u>	<u>\$ 11,987</u>

See accompanying note to supplementary information - unaudited.

<u>Elam Scholarship</u>	<u>Fancher Scholarship</u>	<u>Fite Scholarship</u>	<u>Jackson Scholarship</u>	<u>Joyner Scholarship</u>	<u>Kiwanis Scholarship</u>	<u>Lockwood Scholarship</u>
\$ -	\$ 36,400	\$ 200	\$ -	\$ -	\$ -	\$ -
12	1,709	26	39	-	15	76
<u>12</u>	<u>38,109</u>	<u>226</u>	<u>39</u>		<u>15</u>	<u>76</u>
200	24,812	1,000	-	500	300	-
-	1	-	-	-	-	-
<u>200</u>	<u>24,813</u>	<u>1,000</u>	<u>-</u>	<u>500</u>	<u>300</u>	<u>-</u>
(188)	13,296	(774)	39	(500)	(285)	-
<u>1,295</u>	<u>49,684</u>	<u>3,119</u>	<u>3,442</u>	<u>609</u>	<u>1,699</u>	<u>8,352</u>
<u>\$ 1,107</u>	<u>\$ 62,980</u>	<u>\$ 2,345</u>	<u>\$ 3,481</u>	<u>\$ 109</u>	<u>\$ 1,414</u>	<u>\$ 8,352</u>

MERCED UNION HIGH SCHOOL DISTRICT

**PRIVATE-PURPOSE SCHOLARSHIP TRUST FUNDS
 COMBINING STATEMENT OF CHANGES IN NET ASSETS - UNAUDITED
 FOR THE YEAR ENDED JUNE 30, 2005**

	Martinelli Scholarship	McPherson- Hanson Scholarship	Mitchell Scholarship	Moberly Scholarship	Newhall Scholarship
ADDITIONS					
Trust income	\$ 65	\$ -	\$ -	\$ -	\$ -
Interest income	5	2	6	69	385
Total Additions	<u>70</u>	<u>2</u>	<u>6</u>	<u>69</u>	<u>385</u>
DEDUCTIONS					
Scholarships awarded	250	-	200	200	1,375
Miscellaneous	-	-	-	-	1
Total Deductions	<u>250</u>	<u>-</u>	<u>200</u>	<u>200</u>	<u>1,376</u>
Change in Net Assets	(180)	2	(194)	(131)	(991)
Net Assets - Beginning	<u>648</u>	<u>119</u>	<u>723</u>	<u>5,972</u>	<u>32,997</u>
Net Assets - Ending	<u>\$ 468</u>	<u>\$ 121</u>	<u>\$ 529</u>	<u>\$ 5,841</u>	<u>\$ 32,006</u>

See accompanying note to supplementary information - unaudited.

<u>Prince Scholarship</u>	<u>Rohm Scholarship</u>	<u>Crookham Scholarship</u>	<u>Lau Scholarship</u>	<u>Souza Scholarship</u>	<u>Sodexo Scholarship</u>	<u>Dallas Scholarship</u>	<u>Total (Memorandum Only)</u>
\$ 163	\$ -	\$ -	\$ 562	\$ -	\$ -	\$ -	\$ 376,018
3,401	3	389	112	136	4	280	24,706
<u>3,564</u>	<u>3</u>	<u>389</u>	<u>674</u>	<u>136</u>	<u>4</u>	<u>280</u>	<u>400,724</u>
11,750	1,000	375	1,000	125	1,000	2,000	441,583
2	-	-	-	-	-	1	13
<u>11,752</u>	<u>1,000</u>	<u>375</u>	<u>1,000</u>	<u>125</u>	<u>1,000</u>	<u>2,001</u>	<u>441,596</u>
(8,188)	(997)	14	(326)	11	(996)	(1,721)	(40,872)
<u>164,933</u>	<u>298</u>	<u>3,370</u>	<u>9,773</u>	<u>11,638</u>	<u>1,002</u>	<u>25,061</u>	<u>1,306,826</u>
<u>\$ 156,745</u>	<u>\$ (699)</u>	<u>\$ 3,384</u>	<u>\$ 9,447</u>	<u>\$ 11,649</u>	<u>\$ 6</u>	<u>\$ 23,340</u>	<u>\$ 1,265,954</u>

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION - UNAUDITED JUNE 30, 2005

NOTE 1 - PURPOSE OF SCHEDULES

General Fund Selected Financial Information - Unaudited

This schedule provides a comparison of revenues and expenditures as a percentage of total revenue for the General Fund for the past three years.

Cafeteria Account Selected Financial Information - Unaudited

This schedule provides a comparison of revenues and expenditures as a percentage of total revenue for the Cafeteria Account for the past three years.

Private Purpose Scholarship Trust Funds – Combining Statement of Net Assets and Combining Statement of Changes in Net Assets - Unaudited

These statements are included to provide additional information regarding the individual scholarship trust funds. Following is a description of the purpose and requirements for each of the scholarships.

Jim Acker Memorial Scholarship

This scholarship has been established in honor of Jim Acker who graduated from Merced High School in 1971, by the Jim Acker Memorial Scholarship Committee, to provide a scholarship for graduating seniors from Merced High School attending a two or four year college. Recipient of this scholarship will be selected by the Jim Acker Memorial Scholarship Committee based on citizenship, GPA of 3.0 or higher and participating in athletics.

John L. Alvernaz, Jr. Scholarship

The scholarship is established from the Estate of John L. Alvernaz, Jr. to be awarded to students from Merced Union High School District. No other criteria has been specified for determining eligibility for this scholarship.

Steven O. Beal Memorial Scholarship

This scholarship is established in the memory of Steven O. Beal, a former teacher of Industrial Arts in the Merced Union High School District, for eligible Industrial Arts Drafting students planning to attend a two or four-year accredited college or university. If no Industrial Arts Drafting students apply, the scholarship may be granted to any other deserving Industrial Arts student. The student must have a cumulative GPA of no less than 2.75 for the first seven semesters of high school. The awards are to be in increments of \$500 from any amount over the \$10,000 principle. This scholarship is non-renewable.

Eldon J. Callister Memorial Scholarship

This scholarship is established in honor of Eldon J. Callister to provide a scholarship each year to a student of Merced Union High School District who enrolls as a full time student at either Brigham Young University or Utah State University. An award is given annually if a graduating senior qualifies.

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION - UNAUDITED JUNE 30, 2005

Ugo Cavaiani Scholarship

This scholarship has been set up per the request of Ugo Cavaiani to award scholarships to Livingston High School graduates aspiring to be nurses.

Chamberlain Scholarship

This scholarship was established by Naomi R. Chamberlain to provide annual scholarships to worthy graduates of Merced High School District. The following requirements are to be met by the District in managing the Chamberlain Scholarship:

- The principal shall remain intact in the Trust and the income only would be distributed to worthy students.
- Scholarships are to be awarded once per year in early May or in the spring semester.
- The number of scholarships is dependent upon the amount of interest or income generated from the fund.
- Approximately one-half of the scholarships are to be awarded to students whose goal is to attend a two-year junior or community college and the remaining awarded to students whose goal is to attend a four-year college.
- Scholarships are to be awarded to students with a 3.0 GPA or better during their attendance at Merced High School.
- Consideration should be given to provide for automatic renewal for any student in continuous enrollment, up to four years at any college or university of his or her choice, as long as the student maintains a 3.0 or higher GPA.

Hugh K. Landram Memorial Scholarship

This scholarship fund is established in honor of Hugh K. Landram to provide for scholarships to be awarded to deserving students for their future education in an accredited college or university in the State of California.

John P. Montano Memorial Scholarship

This Scholarship is established in honor of John P. Montano, a former Physical Education teacher and coach in the Merced Union High School District. It provides scholarships to eligible students who competed in a varsity sport for a minimum of one season and are planning to attend a two- or four-year college or an accredited vocational school. The student must have a cumulative GPA of no less than 2.5 for the first seven semesters of high school. The awards are to be in increments of \$600 from any amount over the \$3,255 principal. This scholarship is non-renewable.

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION - UNAUDITED JUNE 30, 2005

Jay Leroy Mudd Scholarship

This scholarship is established from the Estate of Jay Leroy Mudd. The corpus shall not be impaired, but the interest shall be paid, by way of scholarships, to students from Merced Union High School for the purpose of obtaining a college education. A board consisting of the President of Merced City Chamber of Commerce, the President of Merced Rotary club, the Senior Warden of F. & A.M. Lodge #99 of Merced, and the Master of F.& A.M. Lodge #749 of Merced shall have the exclusive right to select the recipients.

Okuda Memorial Scholarship

This scholarship has been established by Franklin Okuda in memory of his son Calvin Okuda. The scholarship has a balance of over \$10,000. This is a perpetual scholarship with only the interest being awarded in the form of scholarships. The interest earned shall be split equally for two scholarships, to one male and one female graduate from Livingston High School that meet the following criteria.

- Scholarships are to be awarded to students with a 2.0 GPA or higher.
- Scholarships are to be awarded to students who are enrolled at a vocational school, community college, state college, or university.
- Scholarships are to be awarded to students who otherwise would not receive an award.

Donna Roberts Scholarship

This scholarship has been set up per the request of Eugene E. Roberts to provide a scholarship each year for a graduating senior of Yosemite High School intending to enroll in a community college the subsequent fall semester. Recipient of this scholarship shall be selected by Mr. Ron DeWong or his successor under criteria established by Mr. Eugene E. Roberts.

Rebecca Starr Roveto Scholarship

This scholarship is established to provide scholarships for graduating seniors from Atwater High School or any new high school serving Atwater students who plan to attend an accredited four year college or university in increments of \$1,000 beginning in 1998. The awards to be given will be selected by the scholarship committee designated by the Merced Union High School District to applicants who have a minimum of 3.3 GPA (4.0 scale).

AARP Scholarship

This scholarship was established by the Atwater AARP Chapter #2194 in the amount of \$9,000 to be distributed at the rate of \$1,000 per year for four scholarships, \$250 each, until the \$9,000 with its earnings has been depleted. The scholarships are to be awarded to two academic majors and two vocational majors for studies accordingly in college. The Atwater High School Scholarship Committee selects several possible academic and vocational recipients from the pool of Atwater High School Scholarship applicants and refers the names to AARP Chapter #2194 for screening and selection.

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION - UNAUDITED JUNE 30, 2005

Richard Barnes Memorial Scholarship

This scholarship was established by JoAnna Browning in the memory of Richard Barnes to provide scholarships for eligible student athletes of Atwater High School who graduate with a minimum 3.0 GPA. There will be one award recipient each year receiving \$500 if attending a two year college or \$1,000 if attending a four year college.

Christine Bloss Memorial Scholarship

This scholarship is established in honor of Christine Bloss to provide scholarships for graduating seniors. It is awarded annually to students who attend a two-year or four-year college and are graduates of Merced High School, Atwater, Livingston, Yosemite, or the Adult School. The total amount awarded annually is determined by the Board of Trustees based on earnings from trust account and time certificates. Each campus receives a stipulated amount based on the number of graduates on a percentage basis. Each school determines the number of recipients and the amount of each award. Students must attend an accredited California college or university.

Brown Memorial Scholarship

This scholarship was established to provide scholarships to Merced and Golden Valley High School graduating seniors planning to attend a two or four-year accredited college or university in increments of \$1,000 per year for four years or completion of undergraduate degree. Scholarships will be awarded to students with a 3.3 cumulative GPA. College students must have a cumulative 2.5 GPA to remain eligible.

Church Scholarship

This scholarship has been established by Mr. and Mrs. Dan Church. The Scholarship Fund has accumulated approximately \$10,000. The interest accrued each year will be awarded to a graduating Golden Valley High School male or female student athlete who has participated in at least one varsity sport and plans to attend Merced College.

Bill Elam Memorial Scholarship

This scholarship has been established in honor of Bill Elam by the Livingston Rotary Club and friends of Bill Elam for the purpose of awarding an annual scholarship to a graduating senior from Livingston High School. No other criteria has been specified for the eligibility requirements. The recipient of this scholarship will be selected by Earlane Elam and the Livingston High School Scholarship Committee.

Fred B. Fancher Scholarship

This scholarship is established in honor of Fred B. Fancher. Scholarships are granted annually to qualified graduates of the Merced Union High School District who have demonstrated an interest in the broad field of agriculture and who wish to pursue a course of study, directly or indirectly, related to the field of agriculture. Students must attend either a two-year or a four-year accredited California university or college. The amount awarded each year depends upon the availability of funds. Applicants may reapply each year and receive a scholarship for up to a maximum of four years.

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION - UNAUDITED JUNE 30, 2005

Carter Fite Memorial Scholarship

As of our audit date this scholarship did not have any restrictions or guidelines as to its use.

Betty B. Jackson Scholarship

This scholarship has been established in honor of Betty B. Jackson, per the request of Lloyd Jackson, to provide a scholarship for the first year of college for a graduating senior of Merced High School enrolling in a junior college. Recipient of this scholarship shall be selected by the Merced High School Scholarship Committee under the criteria established by Mr. Lloyd Jackson as follows:

- Financial need as determined by the Scholarship Committee.
- Minimum GPA of 2.0 based on last 5 semesters of high school grades.
- Selection cannot be made until after the Bloss and Smith Scholarships are selected.

Joyner Scholarship

This scholarship was established by the California Association of School Business Officials to be given in the name of Lydia L. Lobdell, in the amount of \$500 each year for ten years. The recipient will be selected from one high school in the District on a rotating basis. The selection will be made by a committee of business teachers at the site. The scholarship may be awarded without qualification to any graduate in need of assistance to continue their education.

Livingston Kiwanis Club Scholarship

This scholarship has been established by the Kiwanis Club of Livingston-Delhi for the purposes of awarding a yearly academic scholarship to a Livingston High School Student, beginning in 1993. The criteria is to be established by the Livingston High School Scholarship Committee.

Lester L. Lockwood Memorial Scholarship

This scholarship has been established in honor of Lester L. Lockwood with the approval of Janelle Lockwood. The Lester Lockwood Memorial Scholarship will be awarded each year to a graduating senior from Yosemite High School who plans to continue his/her education at Merced College, or the previous year's recipient who is currently enrolled at Merced College and has reapplied for the scholarship. The scholarship may be renewed one time only in the manner described above. A current college student who is reapplying will be given precedence. In the event there is no reapplication, a graduating senior from Yosemite High School will be chosen by the administration and staff at Yosemite High School.

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION - UNAUDITED JUNE 30, 2005

Angelo Martinelli Memorial Scholarship

This scholarship is established in honor of Angelo Martinelli to provide scholarships to eligible Merced High School graduates. Scholarships in the amount of \$250 will be awarded to students who have received a cumulative GPA of at least 2.75 in high school, the student may attend an accredited two-year, four-year, or a vocational school, and the student will be approved by the Martinelli family. This scholarship is non-renewable.

Lucy McPherson-Hanson Memorial Scholarship

This scholarship was established to provide annual scholarships preferably to an African American student, or other minority student, graduating from Merced High School with a minimum grade point average of 2.5. This scholarship is non-renewable.

Herbert Mitchell Memorial Scholarship

This scholarship has been established in honor of Herbert Mitchell by his widow, Mrs. Winnie Mitchell, to provide a \$200 scholarship to a deserving graduate of Merced High School. The recipient of this scholarship shall be selected by the Merced High School Scholarship Committee under the criteria established by Mrs. Winnie Mitchell as follows:

- Financial need as determined by the Scholarship Committee.
- Must be a business student.
- Must be enrolling in a local community college.
- No minimum GPA requirements.

Sanford Moberly Memorial Scholarship

This scholarship is established in memory of Sanford Moberly, an art teacher at Livingston High School. Each year an art student, selected by the Livingston High School Art Department, receives a \$200 award from this scholarship.

Henry Mayo Newhall Scholarship

This scholarship was established by a gift from the Henry Mayo Foundation. A scholarship in the amount of \$8,000 is awarded to the outstanding graduate of Merced High School who will attend a four-year college. Applicant selection criteria is the same as for the Bloss Scholarship.

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION - UNAUDITED JUNE 30, 2005

Clarence Earl Prince Scholarship

This scholarship is established from the Estate of Clarence Earl Prince to provide for scholarships to be awarded to deserving students of Merced Union High School who intend to attend college during the next academic year immediately following high school graduation. The Superintendent of the Merced Union High School District, together with the Board of Directors of Merced Rotary Club shall choose applicants and set the standards by which the applicants will be chosen. The criteria can be changed from one year to the next.

Ryan M. Rohm Memorial Scholarship

This scholarship is established in honor of Ryan Rohm to provide scholarships to eligible Golden Valley High School graduates. Three scholarships, in the amount of \$1,000 (\$500 per year for two years), will be awarded to approved students, to be eligible a student must have received a cumulative GPA of at least 3.0 in high school. This scholarship is non-renewable.

Sybil Nye Crookham Memorial Scholarship

This scholarship is established in honor of Sybil Nye Crookham. The scholarship will be awarded to seniors at either Atwater or Buhach Colony High Schools with a GPA of at least 3.0. The \$250 scholarship will be awarded to one senior at each high school.

Karina Lau Memorial Scholarship

This scholarship is established in honor of Karina Lau. The scholarship is to be awarded to a senior at Livingston High School who was involved in the music or theater program and will enroll in a two or four year college with a music or theater related degree. The scholarship will be \$1,000 a year for up to four years as long as the student continues with a music or theater major.

Crystal Souza Memorial Scholarship

This scholarship is established in honor of Crystal Souza. The scholarship is to be awarded to seniors at Livingston High School and will total \$250 a year for two students. Each \$250 scholarship will be awarded to one agriculture major and one nursing major. The students must be attending Merced College.

Sodexo Scholarship

Sodexo School Services has established this scholarship which will total two \$500 scholarships a year for students wishing to continue their education beyond high school in a vocational area. The scholarship will be rotated between all District high schools beginning with Buhach Colony and Golden Valley. The scholarship will be awarded to one student at each of the two high schools with at least a 2.5 GPA.

Dallas Athletic Scholarship (Heart Award)

This scholarship has been established at Atwater and Buhach Colony High Schools in the amounts of \$12,500 each. The \$1,000 scholarship will be awarded to a female athlete at each high school with a minimum GPA of 2.5 who has participated in athletics for a minimum of two years who will be enrolled in a two or four year college or vocational school.

INDEPENDENT AUDITORS' REPORTS

This page left blank intentionally.



**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
Merced Union High School District
Merced, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Merced Union High School District as of and for the year ended June 30, 2005, which collectively comprise the Merced Union High School District's basic financial statements and have issued our report thereon dated September 2, 2005. 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 Merced Union High 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of Merced Union High School District in a separate letter dated September 2, 2005.

Compliance and Other Matters

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

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

Varrinck, Trine, Day & Co., LLP
Fresno, California
September 2, 2005



**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
Merced Union High School District
Merced, California

Compliance

We have audited the compliance of Merced Union High 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, 2005. Merced Union High 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 Merced Union High School District's management. Our responsibility is to express an opinion on Merced Union High 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 Merced Union High 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 Merced Union High School District's compliance with those requirements.

In our opinion, Merced Union High 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, 2005.

Internal Control Over Compliance

The management of Merced Union High 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 Merced Union High 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 caused by error or fraud 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, and Federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Vavrinek, Trine, Day & Co., LLP
Fresno, California
September 2, 2005



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Governing Board
 Merced Union High School District
 Merced, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Merced Union High School District as of and for the year ended June 30, 2005, and have issued our report thereon dated September 2, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the 2004-05 *Standards and Procedures for Audits of California K-12 Local Educational Agencies* prescribed in the California Code of Regulations, Title 5, Section 19810 and following. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Compliance with the requirements of laws, regulations, contracts, and grants listed below is the responsibility of 2005 GASB34 Merced Union High School District management. In connection with the audit referred to above, we selected and tested transactions and records to determine the Merced Union High School District's compliance with the State laws and regulations applicable to the following items:

	Procedures in Controller's Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance reporting	8	Yes
Kindergarten continuance	3	Not Applicable
Independent study	22	Yes
Continuation education	10	Yes
Adult education	9	Yes
Regional occupational centers and programs	6	Not Applicable
Instructional time and staff development reform program	7	Yes
Instructional Time:		
School districts	4	Yes
County offices of education	3	Not Applicable
Community day schools	9	Not Applicable

	Procedures in Controller's Audit Guide	Procedures Performed
Class Size Reduction Program:		
General requirements	7	Not Applicable
Option one classes	3	Not Applicable
Option two classes	4	Not Applicable
District or charter schools with only one school servicing K-3	4	Not Applicable
Instructional Materials:		
General requirements	12	Yes
K-8 only	1	Not Applicable
9-12 only	1	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Early retirement incentive	4	Yes
GANN limit calculation	1	Yes
School Construction Funds:		
School District bonds	3	Yes
State school facilities funds	1	Yes
Alternative pension plans	2	Not Applicable
Proposition 20 Lottery Funds (Cardenas Textbook Act of 2000)	2	Yes
State Lottery Funds (California State Lottery Act of 1984)	2	Yes
California School Age Families Education (Cal-SAFE) Program	3	Yes
School Accountability Report Card	3	No (see below)

We did not perform testing for School Accountability Report Card (SARC) because the District issued its SARC prior to January 31, 2005, when the revised requirements were issued.

Based on our audit, we found that for the items tested, the Merced Union High School District complied with the State laws and regulations referred to above. Further, based on our audit, for items not tested, nothing came to our attention to indicate that the Merced Union High School District had not complied with the laws and regulations. Our audit does not provide a legal determination on 2005 GASB34 Merced Union High School District's compliance with the State laws and regulations referred to above.

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

Vavrinek, Trine, Day & Co., LLP
 Fresno, California
 September 2, 2005

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

This page left blank intentionally.

MERCED UNION HIGH SCHOOL DISTRICT

**SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2005**

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Reporting conditions identified not considered to be material weaknesses?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified?	<u>No</u>
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>84.048</u>	<u>Vocational Education Cluster</u>
<u>84.010</u>	<u>Title I</u>
<u>84.334</u>	<u>Gear Up</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>

MERCED UNION HIGH SCHOOL DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2005**

There were no findings representing reportable conditions, material weaknesses, nor instances of noncompliance related to the financial statements that were required to be reported in accordance with *Government Auditing Standards*.

MERCED UNION HIGH SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005**

There were no findings representing reportable conditions, material weaknesses, nor instances of noncompliance including questioned costs that were required to be reported by OMB Circular A-133.

MERCED UNION HIGH SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005**

There were no findings representing instances of noncompliance nor questioned costs relating to State program laws and regulations.

MERCED UNION HIGH SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2005**

There were no prior year findings representing reportable conditions, material weaknesses, nor instances of noncompliance related to the financial statements that were required to be reported in accordance with generally accepted government audit standards.

**MERCED UNION
HIGH SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2006

MERCED UNION HIGH SCHOOL DISTRICT

OF MERCED COUNTY

MERCED, CALIFORNIA

JUNE 30, 2006

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Dave M. Olsen	President	2007
Tim O'Neill	Vice President	2009
Dave Honey	Clerk	2009
Ida M. Johnson	Member	2009
Robert J. Weimer	Member	2007

ADMINISTRATION

Robert H. Fore, Jr., Ph.D.	Superintendent
Terry Silva	Deputy Superintendent
Yvonne Eagle	Director of Fiscal Services

MERCED UNION HIGH SCHOOL DISTRICT

TABLE OF CONTENTS

JUNE 30, 2006

FINANCIAL SECTION

Independent Auditors' Report	2
Management's Discussion and Analysis	4
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets	13
Statement of Activities	14
Fund Financial Statements	
Governmental Funds - Balance Sheet	15
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	16
Governmental Funds - Statement of Revenues, Expenditures, and Changes in Fund Balance	17
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the District-Wide Statement of Activities	18
Fiduciary Funds - Statement of Net Assets	19
Fiduciary Funds - Statement of Changes in Net Assets	20
Notes to Financial Statements	21

REQUIRED SUPPLEMENTARY INFORMATION

General Fund - Budgetary Comparison Schedule	45
--	----

SUPPLEMENTARY INFORMATION

Schedule of Expenditures of Federal Awards	47
Schedule of Average Daily Attendance	48
Schedule of Instructional Time	49
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements	50
Schedule of Financial Trends and Analysis	51
Note to Supplementary Information	52

SUPPLEMENTARY INFORMATION - UNAUDITED

General Fund Selected Financial Information - Unaudited	54
Cafeteria Account Selected Financial Information - Unaudited	55
Combining Statements - Private Purpose Scholarship Trust Funds	
Combining Statement of Net Assets - Unaudited	56
Combining Statement of Changes in Net Assets - Unaudited	57
Note to Unaudited Supplementary Information - Unaudited	61

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>	70
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	72
Report on State Compliance	74

MERCED UNION HIGH SCHOOL DISTRICT

TABLE OF CONTENTS
JUNE 30, 2006

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of Auditors' Results	77
Financial Statement Findings	78
Federal Award Findings and Questioned Costs	79
State Award Findings and Questioned Costs	80
Summary Schedule of Prior Audit Findings	81

FINANCIAL SECTION

This page left blank intentionally.



INDEPENDENT AUDITORS' REPORT

Board of Trustees
Merced Union High School District
Merced, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Merced Union High School District (the "District") as of and for the year ended June 30, 2006, 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 2005-06*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Merced Union High School District, as of June 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2006, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

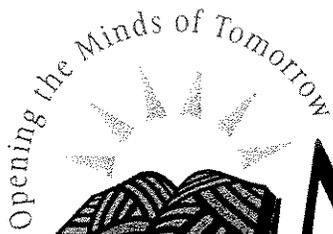
The required supplementary information, such as management's discussion and analysis on pages 4 through 12 and budgetary comparison information on page 45, are not a required part of the basic financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information listed in the table of contents, including the schedule of expenditures of federal awards which is required by U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, 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.

The unaudited supplementary information listed in the table of contents, including the General Fund Selected Financial Information - Unaudited, the Cafeteria Account Selected Financial Information - Unaudited, and the Combining Statements - Private Purpose Scholarship Trust Funds, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Vaurinek, Orsine, Day & Co., LLP

Fresno, California
November 16, 2006



MUHSD

Merced Union High School District

Castle Airport, 3430 A Street, Atwater, California 95301
Mailing Address: P.O. Box 2147 Merced, CA 95344
www.muhsd.k12.ca.us 209-385-6400 (Fax 209-385-6442)

Superintendent
Robert H. Fore, Ph.D.

Board of Trustees
Dave Honey
Ida M. Johnson
David M. Olsen
Tim O'Neill
Robert J. Weimer

Deputy Superintendent
Terry J. Silva

Assistant Superintendents
Raynee J. Daley, Ed.D.
Sylvia Smith

This section of Merced Union High School District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2006. Please read it in conjunction with the District's financial statements, which immediately follow this section. This is our second year of reporting under the GASB 34 format, and therefore, comparative information will be presented between the fiscal years ending June 30, 2006 and 2005, respectively.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

The financial statements presented herein include all of the activities of the Merced Union School District (the District) 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 (including infrastructure) as well as all liabilities (including long-term obligations). Additionally, certain eliminations have occurred as prescribed by the statement in regards to interfund activity, payables and receivables.

The *Fund Financial Statements* include statements for each of the two categories of activities: governmental and fiduciary.

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

The *Fiduciary Activities* are presented in the trust and agency funds, which focus reporting on net assets.

The Primary unit of the government is the Merced Union High School District.

MERCED UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2006

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Assets and the Statement of Activities

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

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

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 an important component in this evaluation.

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

Governmental activities - Most of the District's services are reported in this category. This includes the education of grade nine through grade twelve students, adult education students, the operation of child development activities, 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, finance these activities.

Business-type activities - The District does not have business-type 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.

MERCED UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2006

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

THE DISTRICT AS TRUSTEE

Reporting the Merced High School 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, scholarships, and deferred compensation. The District's fiduciary activities are reported in separate *Statements 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 total net assets were \$87.7 million for the fiscal year ended June 30, 2006, and \$ 74.6 million for the fiscal year ended June 30, 2005; an increase of \$13.1 million. Restricted net assets, which totaled \$11.7 million 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. The analysis below focuses on the net assets (Table 1) and change in net assets (Table 2) of the District's governmental activities for the past two fiscal years.

MERCED UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2006

Table 1

(Amounts in millions)

	School District Activities		Variance
	2006	2005	
Current and other assets	\$ 45.4	\$ 45.9	\$ (0.5)
Capital assets	71.4	59.9	11.5
Total Assets	116.8	105.8	11.0
Current liabilities	4.4	5.6	(1.2)
Long-term obligations	24.7	25.5	(0.8)
Total Liabilities	29.1	31.1	(2.0)
Net assets			
Invested in capital assets, net of related debt	46.8	34.5	12.3
Restricted	29.2	32.5	(3.3)
Unrestricted	11.7	7.7	4.0
Total Net Assets	\$ 87.7	\$ 74.7	\$ 13.0

Changes in Net Assets

The results of this year's operations for the District as a whole are reported in the *Statement of Activities*. Table 2 takes the information from the Statement, rounds off the numbers, and rearranges them slightly so you can see our total revenues for the past two years along with the variance between the two fiscal years.

MERCED UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
 JUNE 30, 2006

Table 2

(Amounts in millions)	School District Activities		Variance
	2006	2005	
Revenues			
Program revenues:			
Charges for services	\$ 1.7	\$ 1.6	\$ 0.1
Operating grants and contributions	20.1	19.4	0.7
Capital grants and contributions	-	1.9	(1.9)
General revenues:			
State revenue limit sources	48.0	46.5	1.5
Property taxes	13.9	12.9	1.0
Other general revenues	11.6	5.2	6.4
Total Revenues	95.3	87.5	7.8
Expenses			
Instruction related	57.9	55.9	2.0
Student support services	9.5	8.9	0.6
Administration	4.6	4.7	(0.1)
Maintenance and operations	7.9	7.8	0.1
Other	2.3	4.1	(1.8)
Total Expenses	82.2	81.4	0.8
Change in Net Assets	\$ 13.1	\$ 6.1	\$ 7.0

Governmental Activities

As reported in the *Statement of Activities*, the cost of all of our governmental activities this year was \$82.2 million as compared to \$81.4 million in the prior year. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$13.9 million because the cost was paid by other governments and organizations which subsidized certain programs with grants and contributions (\$21.8 million). We paid for the remaining "public benefit" portion of our governmental activities with \$48.0 million in State funds and with other revenues, like interest and general entitlements.

In Table 3, we have presented the cost of each of the District's largest functions - program instruction, pupil support services, administration, pupil transportation, administration, maintenance and operations, and other miscellaneous functions as well as each program's *net* cost (total cost less revenues generated by the 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.

MERCED UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2006

Table 3

(Dollar amounts in millions)

	Total Cost of Services		Net Cost of Services	
	2006	2005	2006	2005
Instruction	\$ 57.9	\$ 55.9	\$ 42.5	\$ 40.6
Pupil support services	7.6	7.2	3.7	0.9
Pupil transportation	1.9	1.7	1.3	3.4
Administration	4.6	4.7	3.7	2.8
Maintenance and operations	7.9	7.8	7.7	7.3
Other	2.3	4.1	1.5	3.6
Totals	\$ 82.2	\$ 81.4	\$ 60.4	\$ 58.6

The District's net cost of activities for the current year was \$60.4 as compared to \$58.6 million in the prior year. A majority of the District's expenses were related to the education and support of its students (78.6%).

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds, restricted and unrestricted, reported a combined fund balance of \$41.0 million, while the prior year reported a balance of \$40.2 million, which is an increase of \$0.8 million from last year.

The primary reasons for these decreases are:

- Our General Fund is our principal operating fund. The fund balance in the General Fund increased \$3.2 million from the prior year to an ending fund balance of \$11.8 million. This increase in the ending fund balance is due to an increase in revenues and cost containment procedures on expenditures.
- Our special revenue funds from the prior year showed a net increase of approximately \$2.3 million.
- The capital projects funds showed a decrease of \$4.6 million primarily due to capital acquisitions in the County School Facilities Fund of \$5.2 million.
- The debt service funds remained about the same.

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 on September 13, 2006. (A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report.)

MERCED UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2006

CAPITAL ASSET & DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, the District had \$59.9 million in a broad range of capital assets, including land, buildings, and furniture and equipment, while at June 30, 2006, the net fixed assets totaled \$71.4 million. This amount represents a net increase (including additions, deductions and depreciation) of just over \$11.5 million.

Table 4

(Amounts in millions)	Governmental Activities		Variance
	2006	2005	
Land	\$ 11.0	\$ 3.1	\$ 7.9
Construction in progress	5.4	7.3	(1.9)
Buildings and improvements	51.4	46.8	4.6
Equipment	3.6	2.7	0.9
Totals	\$ 71.4	\$ 59.9	\$ 11.5

This year's additions of \$11.5 included several vehicles, site and building improvements and classroom equipment such as computers. No debt was issued for these additions.

Long-Term Obligations

At the end of this year, the District had \$24.7 million in debt outstanding versus \$25.4 million last year, a decrease of 3.0 percent. General Obligations bonds consisted of: 1999 Current Interest Bonds, Series A and 1999 Capital Appreciation Bonds, Series A. Under GASB 34 reporting guidelines, the liability for our retiree health benefits is no longer included as long-term obligations; however, the amount (\$1.2 million) is disclosed in the Notes to the Financial Statements.

Table 5

(Amounts in millions)	Governmental Activities		Variance
	2006	2005	
General obligation bonds	\$ 24.2	\$ 25.3	\$ (1.1)
Compensated absences	0.1	-	0.1
Capitalized lease obligations	0.4	0.1	0.3
Totals	\$ 24.7	\$ 25.4	\$ (0.7)

The District's general obligation bond rating continues to be "Series A." The State limits the amount of general obligation debt that District's can issue to 35 percent of the assessed value of all taxable property within the District's boundaries.

MERCED UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2006

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2005-06 ARE NOTED BELOW:

In the 2005-06 school year, the Board adopted new Algebra books in line with the California State adoption for algebra, Prentice Hall. This was so that texts would be aligned to state standards tested on the CAHSEE and the CST; and so that teachers could access state AB466 professional development funds in order to effectively prepare to teach the standards. In addition to this, a Local Education Agency Plan Addendum describing how we will serve special education students was required. This was because of the district being in Program Improvement as a result of the achievement levels of its special education subgroup. New state adopted textbooks in reading, English Language Arts, and Algebra, as well as intensive and strategic intervention materials for each of these areas, were therefore adopted and purchased for our special ed students. All in all, the Board invested approximately \$1,240,000 in books, software and materials to include new adoptions; more students being provided books and materials as a result of growth; and, beyond that, the cost of keeping approximately 30 sections district wide below 20 for the purpose of providing three hours of reading and two hours of math intervention to our lowest performers. Smaller sections were supported by general, Class Size Reduction, and Title I funds. Reading achievement data for the 2005-06 school year shows that students in intensive intervention for three hours a day grew on the average of 2.2 grade levels in a single year, something of which we are very proud. The extra time devoted to intensive instruction allows students to close reading and math gaps and rejoin their peers in grade level instruction at the completion of the year.

The district used Medical Administrative Activities funds this year to provide expanded health services for students who have needs such that they would be unable to maintain regular attendance without support. Nearly \$400,000 in MAA funds made these services possible. Such students include asthmatics, diabetics, epileptics, and students who require regular medical procedures throughout the day as a result of severe physical handicap, as well as other special education students and their teachers. As a result of these services, many students who might otherwise have been isolated, or may have not been able to attend sufficiently to graduate, may become successful in and graduate from high school, and, we hope, go on to college and/or gainful employment.

The district continues to benefit from a federal GEAR UP grant which allows us to prepare students at Atwater and Buhach Colony High Schools with the tools they need to go on to college. This has been a five year partnership grant, with the district beginning its fifth year, and expecting a sixth year no cost extension. This means the grant will conclude, if the extension is awarded, in 2007-08. The total award after the fifth year, before the extension, will have been more than \$3.3 million, with the 2005-06 funded amount alone being more than \$600,000.

In order to train teachers to deliver state adopted programs, State AB 466 funds were allocated in the approximate amount of \$65,000 to provide five days of training to each new instructor using the REACH, Holt, and Prentice Hall materials, as well as providing 80 hours of support and mentorship as follow-up.

The district continues to use a computer application, called Edusoft, which allows teachers to study student performance on the standards by collecting student responses to assessments given in the classroom, school wide, and at the standardized testing level. Teachers are able to use the information recorded in Edusoft to daily assess student progress and modify their instruction accordingly. The Board allocated approximately \$75,000 for this endeavor during 2005-06.

MERCED UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2006

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

At the time the District budget was developed, a State budget was not yet adopted. Much of the District's budget is based upon the Governor's *May Revise* tempered with recommendations from School Services of California and the Merced County Office of Education. Budget Assumptions were presented to and accepted by the Merced Union High School District Governing Board on June 28, 2006.

Some noteworthy components included in this budget are listed below.

- Revenue
 - COLA of 5.92 %
 - Deficit factor of 0.0 %
 - Funded ADA budgeted same as prior year actual (9,733)
 - Equalization aid funding budgeted at \$47.50 per ADA
 - Lottery budgeted at \$123 per ADA for unrestricted and \$25 per ADA for restricted instructional materials
 - Various one-time money proposed by the Governor for targeted programs in the *May Revise* has not been budgeted.
- Expenditures
 - No increase in district-wide student enrollment projected
 - Student-to-Teacher staffing ratio to remain the same as prior year. (34.2:1)
 - Step and column salary adjustment for all employees

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:

Terry Silva
Assistant Superintendent, Business Services
Merced Union High School District
3430 A Street, Castle Airport
Atwater, California 95301

Telephone number: (209) 385-6411
e-mail: tsilva@muhsd.k12.ca.us

This page left blank intentionally.

MERCED UNION HIGH SCHOOL DISTRICT

STATEMENT OF NET ASSETS
JUNE 30, 2006

	<u>Governmental Activities</u>
ASSETS	
Deposits and investments	\$ 38,286,572
Receivables	6,815,276
Stores inventories	270,674
Nondepreciable capital assets	16,370,288
Capital assets being depreciated	92,475,195
Accumulated depreciation	(37,428,654)
Total Assets	<u>116,789,351</u>
LIABILITIES	
Accounts payable	3,831,270
Deferred revenue	520,431
Current portion of long-term obligations	1,388,288
Noncurrent portion of long-term obligations	23,326,456
Total Liabilities	<u>29,066,445</u>
NET ASSETS	
Invested in capital assets, net of related debt	46,786,779
Restricted for:	
Debt service	2,564,179
Capital projects	11,062,244
Other activities	15,571,731
Unrestricted	11,737,973
Total Net Assets	<u>\$ 87,722,906</u>

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

MERCED UNION HIGH SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

Functions/Programs	Expenses	Program Revenues	
		Charges for Services and Sales	Operating Grants and Contributions
Governmental Activities:			
Instruction	\$ 47,224,959	\$ 506,226	\$ 12,764,241
Instruction-related activities:			
Supervision of instruction	1,610,081	7,217	1,040,567
Instructional library, media and technology	1,210,141	-	255,408
School site administration	7,885,266	11,194	833,872
Pupil services:			
Home-to-school transportation	1,949,272	72,069	590,817
Food services	3,121,080	1,001,534	1,891,179
All other pupil services	4,457,457	509	974,034
General administration:			
Data processing	685,037	-	-
All other general administration	3,892,440	50,531	776,917
Plant services	7,891,798	5,535	191,751
Ancillary services	1,279,797	-	1,354
Interest on long-term obligations	553,557	-	-
Other outgo	432,901	35,770	732,925
Total Governmental-Type Activities	\$ 82,193,786	\$ 1,690,585	\$ 20,053,065
General revenues and subventions:			
Property taxes, levied for general purposes			
Property taxes, levied for debt service			
Taxes levied for other specific purposes			
Federal and State aid not restricted to specific purposes			
Interest and investment earnings			
Transfers between agencies			
Miscellaneous			
Subtotal, General Revenues			
Change in Net Assets			
Net Assets - Beginning			
Net Assets - Ending			

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

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

**Governmental
Activities**

\$	(33,954,492)
	(562,297)
	(954,733)
	(7,040,200)
	(1,286,386)
	(228,367)
	(3,482,914)
	(685,037)
	(3,064,992)
	(7,694,512)
	(1,278,443)
	(553,557)
	335,794
	<u>(60,450,136)</u>
	12,314,227
	1,542,881
	34,520
	50,437,343
	932,873
	4,467
	8,260,593
	<u>73,526,904</u>
	13,076,768
	<u>74,646,138</u>
\$	<u>87,722,906</u>

MERCED UNION HIGH SCHOOL DISTRICT

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2006

	General Fund	Capital Facilities Fund	Non-Major Governmental Funds
ASSETS			
Deposits and investments	\$ 7,488,373	\$ 7,712,419	\$ 23,085,780
Receivables	5,935,106	347,556	532,614
Due from other funds	1,429,573	17,209	107,326
Stores inventories	204,798	-	65,876
Total Assets	<u>\$ 15,057,850</u>	<u>\$ 8,077,184</u>	<u>\$ 23,791,596</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	2,662,695	488,137	680,438
Due to other funds	93,642	317	1,460,149
Deferred revenue	495,277	-	25,154
Total Liabilities	<u>3,251,614</u>	<u>488,454</u>	<u>2,165,741</u>
FUND BALANCES			
Reserved	2,360,314	-	66,344
Unreserved:			
Designated	9,445,922	7,588,730	18,491,499
Undesignated, reported in:			
Special revenue funds	-	-	503,833
Debt service funds	-	-	2,564,179
Total Fund Balance	<u>11,806,236</u>	<u>7,588,730</u>	<u>21,625,855</u>
Total Liabilities and Fund Balances	<u>\$ 15,057,850</u>	<u>\$ 8,077,184</u>	<u>\$ 23,791,596</u>

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

**Total
Governmental
Funds**

\$ 38,286,572
6,815,276
1,554,108
270,674
\$ 46,926,630

3,831,270
1,554,108
520,431
5,905,809

2,426,658

35,526,151

503,833
2,564,179
41,020,821

\$ 46,926,630

This page left blank intentionally.

MERCED UNION HIGH SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006

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

Total Fund Balance - Governmental Funds		\$ 41,020,821
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	\$ 108,845,483	
Accumulated depreciation is	<u>(37,428,654)</u>	
Total capital assets		71,416,829
Long-term liabilities at year end consist of:		
General obligation bonds - current interest bonds	(10,610,000)	
General obligation bonds - capital appreciation bonds	(13,573,396)	
State school building loans payable	(7,374)	
Capital lease obligations	(439,280)	
Compensated absences	<u>(84,694)</u>	
Total long-term liabilities		<u>(24,714,744)</u>
Total Net Assets - Governmental Activities		<u><u>\$ 87,722,906</u></u>

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

MERCED UNION HIGH SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2006**

	<u>General Fund</u>	<u>Capital Facilities Fund</u>
REVENUES		
Revenue limit sources	\$ 60,374,995	\$ -
Federal sources	6,794,922	-
Other state sources	11,735,906	-
Other local sources	1,883,653	6,443,294
Total Revenues	<u>80,789,476</u>	<u>6,443,294</u>
EXPENDITURES		
Current		
Instruction	44,276,996	-
Instruction-related activities:		
Supervision of instruction	1,489,683	-
Instructional library, media and technology	1,112,595	-
School site administration	7,251,513	-
Pupil Services:		
Home-to-school transportation	1,866,952	-
Food services	35,085	-
All other pupil services	4,349,228	-
General administration:		
Data processing	696,337	-
All other general administration	3,469,007	81,676
Plant services	7,281,449	178,809
Facility acquisition and construction	24,447	4,079,949
Ancillary services	1,279,797	-
Other outgo	432,901	-
Enterprise services	321,263	-
Debt service		
Principal	38,480	94,339
Interest and other	4,971	-
Total Expenditures	<u>73,930,704</u>	<u>4,434,773</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>6,858,772</u>	<u>2,008,521</u>
Other Financing Sources (Uses):		
Transfers in	153,842	-
Transfers out	(3,805,000)	-
Net Financing Sources (Uses)	<u>(3,651,158)</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	3,207,614	2,008,521
Fund Balance - Beginning	8,598,622	5,580,209
Fund Balance - Ending	<u>\$ 11,806,236</u>	<u>\$ 7,588,730</u>

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

Non-Major Governmental Funds	Total Governmental Funds
\$ 1,543,688	\$ 61,918,683
1,982,144	8,777,066
861,301	12,597,207
4,083,828	12,410,775
<u>8,470,961</u>	<u>95,703,731</u>
1,442,839	45,719,835
119,733	1,609,416
-	1,112,595
523,858	7,775,371
565,063	2,432,015
3,002,816	3,037,901
51,833	4,401,061
-	696,337
230,057	3,780,740
226,262	7,686,520
8,707,269	12,811,665
-	1,279,797
-	432,901
-	321,263
1,122,577	1,255,396
530,508	535,479
<u>16,522,815</u>	<u>94,888,292</u>
<u>(8,051,854)</u>	<u>815,439</u>
3,805,000	3,958,842
(153,842)	(3,958,842)
<u>3,651,158</u>	<u>..</u>
(4,400,696)	815,439
26,026,551	40,205,382
<u>\$ 21,625,855</u>	<u>\$ 41,020,821</u>

MERCED UNION HIGH SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE DISTRICT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2006

Total Net Change in Fund Balances - Governmental Funds	\$ 815,439
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:	
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures, however, for governmental activities, those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities.	
This is the amount by which capital outlays exceed depreciation in the period.	
Capital outlays	\$13,920,156
Depreciation expense	<u>(2,414,573)</u>
Interest accrued during the year on the State School Building Loans is considered principal reduction. The amount of interest charged on the loans for the year was:	11,505,583
Some of the capital assets acquired this year were financed with capital leases. The amount financed by the leases is reported in the governmental funds as a source of financing. On the other hand, the capital leases are not revenues in the statement of activities, but rather constitute long-term liabilities in the statement of net assets.	(440)
In the statement of activities compensated absences (vacations) is measured by the amounts earned during the year. In the governmental funds, however, expenditures for this item are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation used was more than the amounts earned by \$48,395.	(433,177)
Repayment of debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities:	(48,395)
General obligation bonds	1,120,000
State school building loans	2,679
Capital lease obligations	<u>115,079</u>
Change in Net Assets of Governmental Activities	<u><u>\$ 13,076,768</u></u>

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

MERCED UNION HIGH SCHOOL DISTRICT

FIDUCIARY FUNDS
 STATEMENT OF FIDUCIARY NET ASSETS
 JUNE 30, 2006

	Private- Purpose Trusts	Agency		Total
	Scholarships	Deferred	Student	
		Compensation	Body	
ASSETS				
Deposits and investments	\$ 1,220,083	\$ 2,098,462	\$ 560,944	\$ 3,879,489
Total Assets	<u>1,220,083</u>	<u>2,098,462</u>	<u>560,944</u>	<u>3,879,489</u>
LIABILITIES				
Due to student groups and employees	-	2,098,462	560,944	2,659,406
Total Liabilities	<u>-</u>	<u>2,098,462</u>	<u>560,944</u>	<u>2,659,406</u>
NET ASSETS				
Reserved for scholarships	1,220,083	-	-	1,220,083
Total Net Assets	<u>\$ 1,220,083</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,220,083</u>

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

MERCED UNION HIGH SCHOOL DISTRICT

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Private- Purpose Trusts</u>
	<u>Scholarships</u>
ADDITIONS	
Trust income	\$ 1,188,285
Interest	13,600
Total Additions	<u>1,201,885</u>
DEDUCTIONS	
Scholarships awarded	1,036,256
Miscellaneous	211,500
Total Deductions	<u>1,247,756</u>
Change in Net Assets	(45,871)
Net Assets - Beginning	<u>1,265,954</u>
Net Assets - Ending	<u>\$ 1,220,083</u>

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

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Merced Union High School District was established in 1915 and comprises the area of approximately 625 square miles located in Merced County. The District operates under a locally-elected five-member Board form of government and provides educational services to grades 9 - 12 as mandated by the State and/or Federal agencies. The District is currently operating schools in the cities of Atwater, Livingston and Merced. The City of Merced has three campuses. Merced High School and Golden Valley High Schools have classes at the ninth through twelfth grade levels. East Campus Educational Center (ECEC) supports four educational programs: Yosemite High School which serves as the District's continuation school; Independence High School which provides independent study opportunities; classes for students from Merced and Golden Valley High School; and the main facility for the Adult School Program is located at ECEC. The City of Atwater has two campuses. Atwater High School has classes at the ninth through twelfth grade levels. Buhach Colony High School opened in August of 2001 with classes at the ninth through twelfth grade levels.

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

Component Units

Component units are legally separate organizations for which the District may be financially accountable. Component units may include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units may be other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. The District has no component units.

Other Related Entities

Joint Powers Agencies and Public Entity Risk Pools The District is associated with three public entity risk pools. These organizations do not meet the criteria for inclusion as component units of the District. Additional information is presented in Note 15 to the financial statements. These organizations are:

- Self-Insured Schools of California Health and Welfare Program
- Self-Insured Schools of California Property and Liability Program
- Merced County Schools Insurance Group

Basis of Presentation - Fund Accounting

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

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

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

Major Governmental Funds

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

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

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:

Adult Education Fund The Adult Education Fund is used to account for resources committed to adult education programs maintained by the District.

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

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

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

Pupil Transportation Equipment Fund The Pupil Transportation Equipment Fund is used to account for resources committed to the acquisition, rehabilitation, or replacement of equipment used to transport students.

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.

Retiree Benefits Fund The Retiree Benefits Fund is used to account for contributions for employees' retirement benefits payments.

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:

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

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.

Tax Override Fund The Tax Override Fund is used for the repayment of voted indebtedness tax levies to be financed from ad valorem tax levies.

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:

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.

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

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

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into two classifications: private-purpose trust funds and agency funds.

Trust funds are used to account for the assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's trust funds are scholarship and deferred compensation accounts. 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).

Basis of Accounting - Measurement Focus

Government-Wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each governmental function. Direct expenses are those that are specifically associated with a service, program, or department and are therefore, clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the Statement of Activities, except for depreciation. 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 or business segment is self-financing or draws from the general revenues of the District.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

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

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

Governmental Funds All governmental funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide financial 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. Generally, available is defined as collectible within 45 or 60 days. However to achieve comparability of reporting among California LEAs and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to state-aid apportionments, the California Department of Education has defined available for LEAs as collectible within one year.

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

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

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

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

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

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

Cash and Cash Equivalents

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

Investments

Investments held at June 30, 2006, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county pools are determined by the program sponsor.

Restricted Assets

Restricted assets arise when restrictions on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation.

Stores Inventory

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

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the District. The District maintains a capitalization threshold of \$5,000. 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.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

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

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

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities columns of the statement of net assets.

Compensated Absences

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

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

Accrued Liabilities and Long-Term Obligations

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

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

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

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.

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.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The government-wide financial statements reports \$29,198,154 of restricted net assets, of which \$15,167,575 is restricted by enabling legislation.

Interfund Activity

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

Estimates

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

Budgetary Data

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

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

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

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 Merced bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

New Accounting Pronouncements

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

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

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

In June 2005, the GASB issued GASBS No. 47, *Accounting for Termination Benefits*. GASBS No. 47 addresses accounting for both voluntary and involuntary termination benefits. For termination benefits that affect an employer's obligations for defined benefit OPEB, the provisions of GASBS No. 47 should be applied simultaneously with the requirements of GASBS No. 45. For all other termination benefits, including those that affect an employer's obligations for defined benefit pension benefits, GASBS No. 47 is effective for financial statements for periods beginning after June 15, 2005. Earlier application of GASBS No. 47 is encouraged.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2006, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 38,286,572
Fiduciary funds	<u>3,879,489</u>
Total Deposits and Investments	<u>\$ 42,166,061</u>

Deposits and investments as of June 30, 2006, consist of the following:

Cash on hand and in banks	\$ 1,781,426
Cash in revolving	20,468
Investments	<u>40,364,167</u>
Total Deposits and Investments	<u>\$ 42,166,061</u>

Policies and Practices

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

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

MERCED UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

General Authorizations

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Pool and purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Segmented Time Distribution

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following schedule that shows the distribution of the District's investments by maturity:

Investment Type	Fair Value	12 Months or Less	13 - 24 Months	25 - 60 Months	More Than 60 Months
Mutual Funds	\$ 2,098,462	\$ 2,098,462	\$ -	\$ -	\$ -
County Pool	38,265,705	38,265,705	-	-	-
Total	<u>\$40,364,167</u>	<u>\$40,364,167</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

MERCED UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of the year-end for each investment type.

Investment Type	Fair Value	Minimum Legal Rating	Rating as of Year End		
			AAA	Aa	Unrated
Mutual Funds	\$ 2,098,462	N/A	\$ -	\$ -	\$ 2,098,462
County Pool	38,265,705	N/A	-	-	38,265,705
Total	<u>\$ 40,364,167</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ 40,364,167</u>

N/A - Not applicable

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government code. Investments in any one issuer that represent five percent or more of the total investments are as follows:

Issuer	Investment Type	Reported Amount
Various	Mutual Funds	<u>\$ 2,098,462</u>

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2006, the District's bank balance of \$1,385,135 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

Custodial Credit Risk - Investments

This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. Of the investment in mutual funds of \$2,098,462, the District has a custodial credit risk exposure of \$2,098,462 because the related securities are uninsured, unregistered and held by the brokerage firm which is also the counterparty for these securities. The District does not have a policy limiting the amount of securities that can be held by counterparties.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

NOTE 3 - RECEIVABLES

Receivables at June 30, 2006, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total
Federal Government				
Categorical aid	\$ 1,107,618	\$ -	\$ 280,314	\$ 1,387,932
State Government				
Apportionment	2,751,811	-	159,156	2,910,967
Categorical aid	1,000,638	-	17,228	1,017,866
Other	522,309	-	-	522,309
Local Sources	552,730	347,556	75,916	976,202
Total	<u>\$ 5,935,106</u>	<u>\$ 347,556</u>	<u>\$ 532,614</u>	<u>\$ 6,815,276</u>

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
Governmental Activities				
Capital Assets not being depreciated				
Land	\$ 3,117,000	\$ 7,848,940	\$ -	\$ 10,965,940
Construction in progress	7,339,240	4,913,327	6,848,219	5,404,348
Total Capital Assets Not Being Depreciated	<u>10,456,240</u>	<u>12,762,267</u>	<u>6,848,219</u>	<u>16,370,288</u>
Capital Assets being depreciated				
Land improvements	13,880,216	622,035	-	14,502,251
Buildings and improvements	61,491,594	5,986,385	-	67,477,979
Furniture and equipment	9,712,293	1,397,688	615,016	10,494,965
Total Capital Assets Being Depreciated	<u>85,084,103</u>	<u>8,006,108</u>	<u>615,016</u>	<u>92,475,195</u>
Less Accumulated Depreciation				
Land improvements	7,542,853	464,284	-	8,007,137
Buildings and improvements	21,099,004	1,466,030	-	22,565,034
Furniture and equipment	6,987,240	484,259	615,016	6,856,483
Total Accumulated Depreciation	<u>35,629,097</u>	<u>2,414,573</u>	<u>615,016</u>	<u>37,428,654</u>
Governmental Activities Capital Assets, Net	<u>\$59,911,246</u>	<u>\$18,353,802</u>	<u>\$6,848,219</u>	<u>\$71,416,829</u>

MERCED UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

Depreciation expense was charged to governmental functions as follows:

Governmental Activities

Instruction	\$ 1,538,757
Instructional library, media, and technology	97,546
School site administration	103,749
Home-to-school transportation	233,855
Food services	83,179
All other pupil services	56,396
Data processing	4,920
All other general administration	19,996
Plant services	276,175
Total Depreciation Expenses Governmental Activities	<u>\$ 2,414,573</u>

NOTE 5 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances at June 30, 2006, are as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General	\$ 1,429,573	\$ 93,642
Adult	-	116,478
Child Development	-	28,468
Cafeteria	76,679	231,012
Deferred Maintenance	-	900
Special Reserve - Other than Capital Outlay	-	1,077,156
Building	25,344	-
Capital Facilities	17,209	317
County School Facilities	5,303	832
Special Reserve - Capital Outlay	-	5,303
Total	<u>\$ 1,554,108</u>	<u>\$ 1,554,108</u>

MERCED UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

Operating Transfers

Interfund transfers for the year ended June 30, 2006, consisted of the following:

The General Fund transferred to the Deferred Maintenance Fund for the required State match.	\$ 280,000
The General Fund transferred to the Child Development Fund for a temporary loan.	50,000
The General Fund transferred to the Cafeteria Fund for a temporary loan.	100,000
The General Fund transferred to the Special Reserve - Other than Capital Outlay Fund to fund special projects.	1,500,000
The General Fund transferred to the Special Reserve - Capital Outlay Fund for future capital projects.	1,300,000
The General Fund transferred to the Pupil Transportation Fund for a temporary loan.	575,000
The Special Reserve - Other than Capital Outlay Fund transferred to the General Fund to fund special projects.	2,678
The Child Development Fund transferred to the General Fund to pay back a temporary loan.	50,000
The Cafeteria Fund transferred to the General Fund to pay back temporary loan.	101,164
Total	<u><u>\$ 3,958,842</u></u>

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2006, consisted of the following:

	General Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total
Vendor payables	\$ 851,080	\$ 488,137	\$ 617,830	\$ 1,957,047
State apportionment	1,733,691	-	-	1,733,691
Accrued Payroll	77,924	-	62,608	140,532
Total	<u><u>\$ 2,662,695</u></u>	<u><u>\$ 488,137</u></u>	<u><u>\$ 680,438</u></u>	<u><u>\$ 3,831,270</u></u>

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 7 - DEFERRED REVENUE

Deferred revenue at June 30, 2006, consists of the following:

	General Fund	Non-Major Governmental Funds	Total
Federal financial assistance	\$ 391,682	\$ 21,796	\$ 413,478
State categorical aid	103,595	3,358	106,953
Total	<u>\$ 495,277</u>	<u>\$ 25,154</u>	<u>\$ 520,431</u>

NOTE 8 - LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2005	Additions and Accretion	Deductions	Balance June 30, 2006	Due in One Year
1999 Current Interest Bonds, Series A	\$11,730,000	\$ -	\$1,120,000	\$ 10,610,000	\$ 1,205,000
1999 Capital Appreciation Bonds, Series A	13,573,396	-	-	13,573,396	-
State school building loans	9,613	440	2,679	7,374	2,593
Accumulated vacation - net	36,299	84,694	36,299	84,694	84,694
Capital leases	121,182	433,177	115,079	439,280	96,001
Total	<u>\$25,470,490</u>	<u>\$ 518,311</u>	<u>\$1,274,057</u>	<u>\$ 24,714,744</u>	<u>\$ 1,388,288</u>

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Bond Issue	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2005	Accreted/ (Redeemed)	Bonds Outstanding June 30, 2006
Current Interest							
Series A	08/01/99	08/01/12	4.5 to 5.5%	\$12,765,000	\$11,730,000	\$ 1,120,000	\$ 10,610,000
Capital Appreciation							
Series A	08/01/12	08/01/24	5.4 to 5.75%	12,144,258	13,573,396	-	13,573,396
Total				<u>\$24,909,258</u>	<u>\$25,303,396</u>	<u>\$ 1,120,000</u>	<u>\$ 24,183,396</u>

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

The Merced Union High School District 1999 General Obligation Bonds, Series A, in the aggregate principal amount of \$24,631,061, are being issued by the Board of Supervisors of the County of Merced on behalf of the Merced Union High School District. The Series A Bonds represent a general obligation of the District, payable solely from *ad valorem* property taxes levied and collected by the County of Merced.

Interest with respect to the Current Interest Series A Bonds accrues from August 1, 1999, and is payable semiannually commencing February 1, 2000. The Capital Appreciation Series A Bonds are dated the date of delivery of the Series A Bonds and accrete interest from such date, compounded semiannually on February 1 and August 1 of each year, commencing February 1, 2000. Both series are issuable as fully registered Series A bonds.

Debt Service Requirements to Maturity

1999 Current Interest, Series A - Payment Summary

The bonds mature through 2013 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2007	\$ 1,205,000	\$ 478,145	\$ 1,683,145
2008	1,300,000	421,782	1,721,782
2009	1,400,000	360,333	1,760,333
2010	1,500,000	293,632	1,793,632
2011	1,615,000	220,776	1,835,776
2012-2013	3,590,000	188,860	3,778,860
Total	<u>\$ 10,610,000</u>	<u>\$ 1,963,528</u>	<u>\$ 12,573,528</u>

1999 Capital Appreciation, Series A - Accretion Summary:

Maturity	Accreted Obligation	Accretion To Date	Unaccreted Interest	Final Maturity
2014	\$ 1,377,200	\$ 287,040	\$ 622,800	\$ 2,000,000
2015	1,325,160	279,981	719,840	2,045,000
2016	1,276,990	271,679	813,010	2,090,000
2017	1,231,784	263,841	908,216	2,140,000
2018	1,183,833	255,252	1,001,167	2,185,000
2019	1,138,509	247,124	1,096,491	2,235,000
2020	1,096,343	238,851	1,188,657	2,285,000
2021	1,060,956	231,192	1,279,044	2,340,000
2022	1,021,008	223,083	1,368,992	2,390,000
2023	987,291	215,649	1,457,709	2,445,000
2024	953,500	208,325	1,546,500	2,500,000
2025	920,822	201,181	1,634,178	2,555,000
Total	<u>\$ 13,573,396</u>	<u>\$ 2,923,198</u>	<u>\$ 13,636,604</u>	<u>\$ 27,210,000</u>

MERCED UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

State and Public School Building Loans

State school building loans outstanding as of June 30, 2006, are as follows:

Year Disbursed	Interest Rate	Balance July 1, 2005	Interest Charge	Repayment and State Credit Current Year	Outstanding June 30, 2006
1986-87	4.80%	\$ 9,613	\$ 440	\$ 2,679	\$ 7,374

The State and Public School Building Loans are secured by all sites purchased and improved, all equipment purchased, and all buildings constructed, reconstructed, altered, or added to through the expenditure of such funds in accordance with Section 16019 of the Education Code.

Annual repayment is determined by the State Controller in accordance with Section 16214 of the Education Code.

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2006, amounted to \$84,694.

Capital Leases

The District has entered into various capital lease arrangements at June 30, 2006. The District's liability on lease agreements with options to purchase are summarized below:

Balance, July 1, 2005	\$ 121,182
Additions	433,177
Payments	115,079
Balance, June 30, 2006	<u>\$ 439,280</u>

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2007	\$ 114,610
2008	114,020
2009	113,432
2010	112,844
2011	17,917
2012	17,329
Total	<u>490,152</u>
Less: Amount Representing Interest	50,872
Present Value of Minimum Lease Payments	<u>\$ 439,280</u>

MERCED UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 9 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total
Reserved				
Revolving cash	\$ 20,000	\$ -	\$ 468	\$ 20,468
Stores inventory	204,798	-	65,876	270,674
Restricted programs	2,135,516	-	-	2,135,516
Total Reserved	<u>2,360,314</u>	<u>-</u>	<u>66,344</u>	<u>2,426,658</u>
Unreserved				
Designated				
Economic uncertainties	2,284,475	-	-	2,284,475
Other designation	7,161,447	7,588,730	18,491,499	33,241,676
Total Designated	<u>9,445,922</u>	<u>7,588,730</u>	<u>18,491,499</u>	<u>35,526,151</u>
Undesignated	-	-	3,068,012	3,068,012
Total Unreserved	<u>9,445,922</u>	<u>7,588,730</u>	<u>21,559,511</u>	<u>38,594,163</u>
Total	<u>\$ 11,806,236</u>	<u>\$ 7,588,730</u>	<u>\$ 21,625,855</u>	<u>\$ 41,020,821</u>

NOTE 10 - EXPENDITURES (BUDGET VERSUS ACTUAL)

At June 30, 2006, the following District major fund exceeded the budgeted amounts in total as follows:

Fund	Expenditures and Other Uses		
	Budget	Actual	Excess
General			
Other outgo	\$ 99,758	\$ 202,844	\$ 103,086
Capital outlay	\$ 393,731	\$ 560,006	\$ 166,275
Debt service	\$ 30,780	\$ 43,451	\$ 12,671

NOTE 11 - POSTEMPLOYMENT BENEFITS

The District provides postemployment health care benefits, in accordance with District employment contracts, to all employees who retire from the District on or after attaining age 55 with at least ten years of service. Currently, 91 employees meet those eligibility requirements. The District contributes a negotiated portion of the amount of premiums incurred by retirees and their dependents and the retiree contributes the remainder. Expenditures for postemployment benefits are recognized on a pay-as-you-go basis, as premiums are paid. During the year, expenditures of \$1,233,177 were recognized for retirees' health care benefits.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

The approximate accumulated future liability for the District at June 30, 2006, amounts to \$15,946,139. The estimated liability is based on an actuarial study performed at August 31, 2006.

NOTE 12 - RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2006, the District contracted with Self Insured Schools of California for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

Workers' Compensation

For fiscal year 2006, the District participated in the Merced County Schools Insurance Group, an insurance purchasing pool. The intent of the Merced County Schools Insurance Group is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Merced County Schools Insurance Group. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in the Merced County Schools Insurance Group. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage. A participant will then either receive money from or be required to contribute to the "equity-pooling fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the Merced County Schools Insurance Group. Participation in the Merced County Schools Insurance Group is limited to districts that can meet the Merced County Schools Insurance Group selection criteria.

Coverage provided by MCSIG for property and liability and workers' compensation is as follows:

<u>Insurance Program / Company Name</u>	<u>Type of Coverage</u>	<u>Limits</u>
<u>Workers' Compensation Program</u>		
Merced County Schools Insurance Group	Workers' Compensation	\$ 19,000,000 per year \$ 250,000 per occurrence
<u>Excess Property and Liability Program</u>		
School Excess Liability Fund (SELF)	Excess Property and Liability	Per occurrence: \$ 25,000,000-Liability, Auto. \$ 75,000,000-Property \$ 250,000-Compreh. Crime \$ 15,000,000-Boiler and Machinery \$ 2,500-Student Accident

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

Employee Medical Benefits

The District has contracted with the Self Insured Schools of California Health and Welfare Program to provide employee medical and surgical benefits. Self Insured Schools of California Health and Welfare Program is a shared risk pool comprised of agencies within California. Rates are set through an annual calculation process. The District pays a monthly contribution, which is placed in a common fund from which claim payments are made for all participating Districts. Claims are paid for all participants regardless of claims flow. The Board of Directors has a right to return monies to a district subsequent to the settlement of all expenses and claims if a district withdraws from the pool.

NOTE 13 - 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).

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 year 2005-2006 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to STRS for the fiscal years ending June 30, 2006, 2005, and 2004, were \$2,969,597, \$2,792,468, and \$2,624,220, respectively, and equal 100 percent of the required contributions for each year.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

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 salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2005-2006 was 9.952 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2006, 2005, and 2004, were \$968,969, \$999,665, and \$984,159, respectively, and equal 100 percent of the required contributions for each year.

Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (STRS or PERS) must be covered by social security or an alternative plan. The District has elected to use its alternative plan. Contributions made by the District and an employee vest immediately. The District contributes 6.2 percent of an employee's gross earnings. An employee is required to contribute 6.2 percent of his or her gross earnings to the pension plan.

On Behalf Payments

The State of California makes contributions to STRS and PERS on behalf of the District. These payments consist of State General Fund contributions to STRS in the amount of \$1,625,900 (4,517 percent of salaries subject to STRS). No contributions were made for PERS for the year ended June 30, 2006. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures, however, guidance received from the California Department of Education advises local educational agencies not to record these amounts in the Annual Financial and Budget Report. These amounts have not been included in the budget amounts reported in the General Fund Budgetary Schedule. These amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from Federal and State agencies in the form of grants. 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, 2006.

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, 2006.

Operating Leases

The District has entered into various operating leases for buildings and equipment with lease terms in excess of one year. None of these agreements contain purchase options. All agreements contain a termination clause providing for cancellation after a specified number of days written notice to lessors, but it is unlikely that the District will cancel any of the agreements prior to the expiration date.

Construction Commitments

As of June 30, 2006, the District had the following commitments with respect to the unfinished capital projects:

CAPITAL PROJECT	Remaining Construction Commitment	Expected Date of Completion
Bellevue Road Area High School	\$ 1,509,284	August 2008
Livingston High School Enlargement	294,841	July 2007
Buhach Colony High School Phase II	629,975	September 2006
Buhach Colony High School Phase III	212,200	June 2007
Livingston High School Modernization Phase III	45,000	October 2007
Merced High Pool Renovation	329,756	September 2007
Portable Classrooms/Class Leasing	360,708	August 2011
Roofing Projects at ECEC, LHS and MHS	283,750	August 2006
Painting Contracts GVHS and AHS	41,525	August 2006
Carpeting Contracts GVHS, AHS and ECEC	41,094	August 2006
Total	<u>\$ 3,748,133</u>	

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

NOTE 15 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWERS AUTHORITIES

The District is a member of the Self-Insured Schools of California (SISC III), the Self-Insured Schools of California (SISC II), and the Merced County Schools Insurance Group (MCSIG) public entity risk pools. The District pays an annual premium to each entity for its health, workers' compensation, and property liability coverage. The relationships between the District and pools are such that they are not component units of the District for financial reporting purposes.

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

The District has no appointed board members to the governing board of SISC III.

During the year ended June 30, 2006, the District made payment of \$9,692,563 to SISC III for medical, dental and vision insurance.

The District has no appointed board members to the governing board of SISC II.

During the year ended June 30, 2006, the District made payment of \$394,027 to SISC II for property and liability insurance.

The District has appointed two board members to the governing board of MCSIG.

During the year ended June 30, 2006, the District made payment of \$1,047,771 to MCSIG for workers' compensation insurance.

This page left blank intentionally.

REQUIRED SUPPLEMENTARY INFORMATION

This page left blank intentionally.

MERCED UNION HIGH SCHOOL DISTRICT

GENERAL FUND
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED JUNE 30, 2006

	Budgeted Amounts		Actual (GAAP Basis)	Variances -
	(GAAP Basis)			Favorable
	Original	Final		(Unfavorable) Final to Actual
REVENUES				
Revenue limit sources	\$ 58,560,288	\$ 60,336,705	\$ 60,374,995	\$ 38,290
Federal sources	7,677,068	8,206,262	6,794,922	(1,411,340)
Other state sources	8,534,765	9,885,965	11,735,906	1,849,941
Other local sources	864,840	972,757	1,883,653	910,896
Total Revenues ¹	<u>75,636,961</u>	<u>79,401,689</u>	<u>80,789,476</u>	<u>1,387,787</u>
EXPENDITURES				
Current				
Certificated Salaries	32,450,957	35,684,598	35,253,887	430,711
Classified salaries	10,154,178	11,350,028	11,153,017	197,011
Employee benefits	16,147,551	16,108,223	16,189,821	(81,598)
Books and supplies	6,506,961	8,173,422	4,010,759	4,162,663
Services and operating expenditures	7,009,563	8,932,036	6,516,919	2,415,117
Other outgo	224,483	99,758	202,844	(103,086)
Capital outlay	163,200	393,731	560,006	(166,275)
Debt service	30,780	30,780	43,451	(12,671)
Total Expenditures ¹	<u>72,687,673</u>	<u>80,772,576</u>	<u>73,930,704</u>	<u>6,841,872</u>
Excess (Deficiency) of Revenues				
Over Expenditures	<u>2,949,288</u>	<u>(1,370,887)</u>	<u>6,858,772</u>	<u>8,229,659</u>
Other Financing Sources (Uses):				
Transfers in	503,000	505,678	153,842	(351,836)
Transfers out	(4,155,000)	(4,155,000)	(3,805,000)	350,000
Net Financing Sources (Uses)	<u>(3,652,000)</u>	<u>(3,649,322)</u>	<u>(3,651,158)</u>	<u>(1,836)</u>
NET CHANGE IN FUND BALANCES	<u>(702,712)</u>	<u>(5,020,209)</u>	<u>3,207,614</u>	<u>8,227,823</u>
Fund Balance - Beginning	<u>8,598,622</u>	<u>8,598,622</u>	<u>8,598,622</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 7,895,910</u>	<u>\$ 3,578,413</u>	<u>\$ 11,806,236</u>	<u>\$ 8,227,823</u>

¹ On behalf payments of \$1,586,545 are included in the actual revenues and expenditures, but have not been included in the budget amounts.

This page left blank intentionally.

SUPPLEMENTARY INFORMATION

This page left blank intentionally.

MERCED UNION HIGH SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
Adult Education - Priority 1-3	84.002A	14508	\$ 105,407
Adult Education - Priority 5	84.002A	13978	13,488
Adult Education - English Literacy	84.002A	14109	57,426
Title IV- Drug Free Schools No Child Left Behind	84.186	14347	71,138
Title I - Basic	84.010	13797	2,923,656
Title I - Program Improvement	84.010	14581	51,480
Title II - Teacher Quality ¹	84.367	14341	449,460
Title II - Principal Training ¹	84.367	14344	6,300
Title II - Technical Literacy Challenge	84.318	14334	99,047
Title III - Immigrant Education	84.365	14346	19,211
Title III - LEP	84.365	10084	172,475
Title V - Innovative Strategies	84.298A	13340	35,829
Migrant Education	84.011	13628	3,248
Gear Up Program	84.334	10088	672,743
Advanced Placement Fee Assistance	84.330A	13917	23,326
Statewide Student Identifier Maintenance	84.330A	14353	7,627
STAR Testing	84.330A	13917	695
Special Education - State Grants			
Local Assistance	84.027	13379	1,428,530
Workability	84.027	24463	348,678
Vocational Educational Grants			
Vocational & Applied Technology	84.048	13924	364,431
Postsecondary and Adult Literacy	84.048	13923	20,070
Total U.S. Department of Education			<u>6,874,265</u>
U.S. DEPARTMENT OF LABOR			
Passed through CDE:			
Workforce Investment Act	17.255	13422	<u>55,265</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through CDE:			
Child Nutrition School Programs-Lunch and Breakfast ¹	10.556	14198	1,768,410
Child Nutrition School Programs-Family Day Care	10.558	13665	12,035
Total U.S. Department of Agriculture			<u>1,780,445</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through CDE:			
Infant & Toddler Childcare	93.575	13942	5,309
Medi-Cal	93.778	10013	61,782
Total U.S. Department of Agriculture			<u>67,091</u>
Total Federal Financial Assistance			<u>\$ 8,777,066</u>

¹ Tested as a major program

See accompanying note to supplementary information.

MERCED UNION HIGH SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2006

	Revised Second Period Report	Annual Report
SECONDARY		
Regular classes	9,302	9,235
Continuation education	221	213
Home and hospital	7	8
Special education	211	209
Community Day	9	9
Total Secondary	9,750	9,674
CLASSES FOR ADULTS		
Concurrently enrolled	48	42
Not concurrently enrolled	605	627
Total Classes for Adults	652	669
Grand Total	10,402	10,343
Hours of Attendance		
SUPPLEMENTAL HOURS		
K-12 core instruction		61,294
7-12 remedial instruction		295,442
Total Hours		356,736

See accompanying note to supplementary information.

MERCED UNION HIGH SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2006

<u>Grade Level</u>	1982-83	1986-87	2005-06	Number of Days		<u>Status</u>
	<u>Actual</u> <u>Minutes</u>	<u>Minutes</u> <u>Requirement</u>	<u>Actual</u> <u>Minutes</u>	<u>Traditional</u> <u>Calendar</u>	<u>Multitrack</u> <u>Calendar</u>	
Grades 9 - 12	61,195	64,800	65,025	180	N/A	Complied

See accompanying note to supplementary information.

MERCED UNION HIGH SCHOOL DISTRICT

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

There were no adjustments to the Unaudited Actual Financial Report which required reconciliation to the audited financial statements at June 30, 2006.

Summarized below are the Form Debt reconciliations between the Unaudited Actual Financial Report, and the audited financial statements:

FORM DEBT

Total Liabilities, June 30, 2006, Unaudited Actuals	\$ 42,139,288
Decrease in:	
General Obligation Bonds Payable	(1,457,629)
Cap Leases Payable	(20,776)
Other Post Employment Benefits	(15,946,139)
Total Liabilities, June 30, 2006, Audited Financial Statement	<u>\$ 24,714,744</u>

See accompanying note to supplementary information.

MERCED UNION HIGH SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006

	(Budget) 2007 ¹	2006 ⁴	2005 ⁴	2004 ⁴
GENERAL FUND				
Revenues	\$ 81,731,714	\$ 79,202,931	\$ 73,796,121	\$ 66,754,308
Other sources and transfers in	503,000	153,842	1,303,061	328,331
Total Revenues and Other Sources	82,234,714	79,356,773	75,099,182	67,082,639
Expenditures	79,535,175	72,344,159	70,795,993	64,179,968
Other uses and transfers out	3,830,000	3,805,000	2,228,810	5,657,400
Total Expenditures and Other Uses	83,365,175	76,149,159	73,024,803	69,837,368
INCREASE/(DECREASE) IN FUND BALANCE	\$ (1,130,461)	\$ 3,207,614	\$ 2,074,379	\$ (2,754,729)
ENDING FUND BALANCE	\$ 10,675,775	\$ 11,806,236	\$ 8,598,622	\$ 6,524,243
AVAILABLE RESERVES ²	\$ 2,500,955	\$ 2,284,475	\$ 2,326,485	\$ 2,309,100
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	3.00%	3.00%	3.19%	3.31%
LONG-TERM OBLIGATIONS	\$ 24,850,000	\$ 24,714,744	\$ 25,470,490	\$ 25,114,584
AVERAGE DAILY ATTENDANCE AT P-2 ³	9,733	9,750	9,502	9,040

The General Fund balance has increased by \$5,281,993 over the past two years. The fiscal year 2006-07 budget projects a decrease of \$1,130,461 (9.6 percent). For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in two of the past three years but anticipates incurring an operating deficit during the 2006-07 fiscal year. Total long-term obligations have decreased by \$399,840 over the past two years.

Average daily attendance has increased by 710 ADA over the past two years. No growth of ADA is anticipated during fiscal year 2006-07.

¹ Budget 2007 is included for analytical purposes only and has not been subjected to audit.

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

³ Excludes Adult Education ADA.

⁴ On behalf payments have been excluded from this schedule.

See accompanying note to supplementary information.

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2006

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

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

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

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

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

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

SUPPLEMENTARY INFORMATION - UNAUDITED

This page left blank intentionally.

MERCED UNION HIGH SCHOOL DISTRICT

**GENERAL FUND SELECTED FINANCIAL INFORMATION
THREE-YEAR SUMMARY OF REVENUES, EXPENDITURES AND
CHANGES OF FUND BALANCE - UNAUDITED
FOR THE YEAR ENDED JUNE 30, 2006**

(Dollar amounts in thousands)

	Actual Results for the Years					
	2005-2006 ¹		2004-2005 ¹		2003-2004 ¹	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Amount	Percent of Revenue
REVENUES						
Federal revenue	\$ 6,795	8.6	\$ 7,119	9.6	\$ 6,088	9.1
State and local revenue included in revenue limit	60,375	76.2	55,768	75.6	50,655	75.9
Other state revenue	10,149	12.8	9,460	12.8	9,024	13.5
Other local revenue	1,884	2.4	1,449	2.0	987	1.5
Total Revenues	<u>79,203</u>	<u>100.0</u>	<u>73,796</u>	<u>100.0</u>	<u>66,754</u>	<u>100.0</u>
EXPENDITURES						
Salaries and Benefits						
Certificated salaries	35,254	44.5	33,799	45.8	31,332	46.9
Classified salaries	11,153	14.1	10,330	14.0	9,914	14.9
Employee benefits	14,603	18.4	16,618	22.5	13,106	19.6
Total Salaries and Benefits	<u>61,010</u>	<u>77.0</u>	<u>60,747</u>	<u>82.3</u>	<u>54,352</u>	<u>81.4</u>
Books and supplies	4,011	5.1	3,882	5.3	3,735	5.6
Contracts and operating expenses	6,517	8.2	6,082	8.2	5,742	8.6
Capital outlay	560	0.7	128	0.2	207	0.3
Debt service	44	0.1	5	0.0	21	0.0
Other outgo	202	0.3	(48)	(0.1)	123	0.2
Total Expenditures	<u>72,344</u>	<u>91.3</u>	<u>70,796</u>	<u>95.9</u>	<u>64,180</u>	<u>96.1</u>
EXCESS OF REVENUES OVER/ (UNDER) EXPENDITURES	<u>6,859</u>	<u>8.66003</u>	<u>3,000</u>	<u>4.1</u>	<u>2,574</u>	<u>3.9</u>
OTHER FINANCING SOURCES/(USES)						
Operating transfers in	154	0.2	1,303	1.8	328	0.5
Operating transfers out	(3,805)	(4.8)	(2,229)	(3.0)	(5,657)	(8.5)
Total Other Financing Sources/(Uses)	<u>(3,651)</u>	<u>(4.6)</u>	<u>(926)</u>	<u>(1.3)</u>	<u>(5,329)</u>	<u>(8.0)</u>
INCREASE/(DECREASE) IN FUND BALANCE	<u>3,208</u>	<u>4.1</u>	<u>2,074</u>	<u>2.8</u>	<u>(2,755)</u>	<u>(4.1)</u>
FUND BALANCE, BEGINNING	8,598		6,524		9,279	
FUND BALANCE, ENDING	<u>\$11,806</u>		<u>\$ 8,598</u>		<u>\$ 6,524</u>	
ENDING FUND BALANCE TO TOTAL REVENUES		<u>14.9</u>		<u>11.7</u>		<u>9.8</u>
BASE REVENUE LIMIT PER ADA						
Regular 9-12	<u>\$ 5,981</u>		<u>\$ 5,738</u>		<u>\$ 5,584</u>	

¹ Excludes State STRS on behalf payments.

See accompanying note to supplementary information - unaudited.

MERCED UNION HIGH SCHOOL DISTRICT

**CAFETERIA ACCOUNT SELECTED FINANCIAL INFORMATION
THREE-YEAR SUMMARY OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - UNAUDITED
FOR THE YEAR ENDED JUNE 30, 2006**

(Dollar amounts in thousands)

	Actual Results for the Years					
	2005-2006		2004-2005		2003-2004	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Amount	Percent of Revenue
REVENUES						
Federal - NSLP	\$ 1,768	56.8	\$ 1,744	58.0	\$ 1,581	55.7
State meal program	122	3.9	117	3.9	105	3.7
Food sales	1,223	39.3	1,146	38.1	1,152	40.6
Total Revenues	<u>3,113</u>	<u>100.0</u>	<u>3,007</u>	<u>100.0</u>	<u>2,838</u>	<u>100.0</u>
EXPENDITURES						
Salaries and employee benefits	1,313	42.2	1,295	43.1	1,227	43.2
Food and Supplies	1,385	44.5	1,309	43.5	1,237	43.6
Other	436	14.0	468	15.6	285	10.0
Total Expenditures	<u>3,134</u>	<u>100.7</u>	<u>3,072</u>	<u>102.2</u>	<u>2,749</u>	<u>96.9</u>
EXCESS OF REVENUES OVER/ (UNDER) EXPENDITURES	<u>(21)</u>	<u>(0.7)</u>	<u>(65)</u>	<u>(2.2)</u>	<u>89</u>	<u>3.1</u>
OTHER FINANCING SOURCES/(USES)						
Transfers in	100	3.2	180	6.0	230	8.1
Transfers out	<u>(101)</u>	<u>(3.2)</u>	<u>(182)</u>	<u>(6.1)</u>	<u>(234)</u>	<u>(8.2)</u>
Total Other Financing Sources (Uses)	<u>(1)</u>	<u>(0.0)</u>	<u>(2)</u>	<u>(0.1)</u>	<u>(4)</u>	<u>(0.1)</u>
INCREASE/(DECREASE) IN FUND BALANCE	<u>(22)</u>	<u>(0.7)</u>	<u>(67)</u>	<u>(2.2)</u>	<u>85</u>	<u>3.0</u>
FUND BALANCE, BEGINNING	<u>105</u>		<u>172</u>		<u>87</u>	
FUND BALANCE, ENDING	<u>\$ 83</u>		<u>\$ 105</u>		<u>\$ 172</u>	

* * * * *

TYPE 'A' LUNCH PARTICIPATION

	2005-2006		2004-2005		2003-2004	
	Amount	Percent	Amount	Percent	Amount	Percent
TYPE 'A' LUNCHES						
Paid	32,397	4.7	20,169	3.1	16,325	2.8
Reduced price	105,843	15.5	105,613	16.2	91,133	15.7
Free	544,128	79.7	525,213	80.7	471,424	81.4
Total Lunches	<u>682,368</u>	<u>100.0</u>	<u>650,995</u>	<u>100.0</u>	<u>578,882</u>	<u>100.0</u>

See accompanying note to supplementary information - unaudited.

MERCED UNION HIGH SCHOOL DISTRICT

PRIVATE-PURPOSE SCHOLARSHIP TRUST FUNDS
 COMBINING STATEMENT OF NET ASSETS - UNAUDITED
 JUNE 30, 2006

ASSETS	Scholarships
Deposits and investments	\$ 1,220,083
Total Cash and Assets	<u>\$ 1,220,083</u>
LIABILITIES	
Liabilities	-
NET ASSETS	
Reserved for scholarships	
Acker Scholarship	18,266
Alvernaz Scholarship	20,517
Beal Scholarship	10,322
Callister Scholarship	3,094
Cavaiani Scholarship	10,530
Chamberlain Scholarship	14,422
Landram Scholarship	26,671
Montano Scholarship	7,506
Mudd Scholarship	21,435
Okuda Scholarship	10,790
Roberts Scholarship	8,171
Roveto Scholarship	165,470
AARP Scholarship	8,302
Barnes Scholarship	13,305
Bloss Scholarship	522,779
Brown Scholarship	9,477
Church Scholarship	12,161
Elam Scholarship	768
Fancher Scholarship	82,747
Fite Scholarship	1,571
Jackson Scholarship	3,531
Joyner Scholarship	109
Kiwanis Scholarship	1,132
Lockwood Scholarship	8,556
Martinelli Scholarship	755
McPherson-Hanson Scholarship	123
Mitchell Scholarship	435
Moberly Scholarship	5,730
Newhall Scholarship	31,622
Prince Scholarship	149,158
Rohm Scholarship	52
Crookham Scholarship	2,932
Lau Scholarship	8,602
Souza Scholarship	11,410
Sodexo Scholarship	760
Dallas Scholarship	21,687
Purganan Scholarship	2,119
McCollum Scholarship	3,066
Total Net Assets Reserved for Scholarships	<u>\$ 1,220,083</u>

See accompanying note to supplementary information - unaudited.

MERCED UNION HIGH SCHOOL DISTRICT

**PRIVATE-PURPOSE SCHOLARSHIP TRUST FUNDS
COMBINING STATEMENT OF CHANGES IN NET ASSETS - UNAUDITED
FOR THE YEAR ENDED JUNE 30, 2006**

	Acker Scholarship	Alvernaz Scholarship	Beal Scholarship	Callister Scholarship	Cavaiani Scholarship
ADDITIONS					
Trust income	\$ -	\$ -	\$ -	\$ -	\$ -
Interest income	285	304	153	51	483
Total Additions	<u>285</u>	<u>304</u>	<u>153</u>	<u>51</u>	<u>483</u>
DEDUCTIONS					
Scholarships awarded	1,500	200	-	400	1,375
Miscellaneous	-	-	-	-	-
Total Deductions	<u>1,500</u>	<u>200</u>	<u>-</u>	<u>400</u>	<u>1,375</u>
Change in Net Assets	(1,215)	104	153	(349)	(892)
Net Assets - Beginning	<u>19,481</u>	<u>20,413</u>	<u>10,169</u>	<u>3,443</u>	<u>11,422</u>
Net Assets - Ending	<u>\$ 18,266</u>	<u>\$ 20,517</u>	<u>\$ 10,322</u>	<u>\$ 3,094</u>	<u>\$ 10,530</u>

See accompanying note to supplementary information - unaudited.

<u>Chamberlain Scholarship</u>	<u>Landram Scholarship</u>	<u>Montano Scholarship</u>	<u>Mudd Scholarship</u>	<u>Okuda Scholarship</u>	<u>Roberts Scholarship</u>	<u>Roveto Scholarship</u>
\$ 1,500	\$ -	\$ 900	\$ -	\$ -	\$ -	\$ 20,066
249	402	97	322	159	101	3,616
<u>1,749</u>	<u>402</u>	<u>997</u>	<u>322</u>	<u>159</u>	<u>101</u>	<u>23,682</u>
3,625	250	300	350	300	-	28,500
-	-	-	-	-	-	-
<u>3,625</u>	<u>250</u>	<u>300</u>	<u>350</u>	<u>300</u>	<u>-</u>	<u>28,500</u>
(1,876)	152	697	(28)	(141)	101	(4,818)
<u>16,298</u>	<u>26,519</u>	<u>6,809</u>	<u>21,463</u>	<u>10,931</u>	<u>8,070</u>	<u>170,288</u>
<u>\$ 14,422</u>	<u>\$ 26,671</u>	<u>\$ 7,506</u>	<u>\$ 21,435</u>	<u>\$ 10,790</u>	<u>\$ 8,171</u>	<u>\$ 165,470</u>

MERCED UNION HIGH SCHOOL DISTRICT

**PRIVATE-PURPOSE SCHOLARSHIP TRUST FUNDS
 COMBINING STATEMENT OF CHANGES IN NET ASSETS - UNAUDITED
 FOR THE YEAR ENDED JUNE 30, 2006**

	AARP Scholarship	Barnes Scholarship	Bloss Scholarship	Brown Scholarship	Church Scholarship
ADDITIONS					
Trust income	\$ -	\$ 7,051	\$ 343,006	\$ -	\$ -
Interest income	132	168	9,985	188	174
Total Additions	<u>132</u>	<u>7,219</u>	<u>352,991</u>	<u>188</u>	<u>174</u>
DEDUCTIONS					
Scholarships awarded	625	2,000	400,759	9,000	-
Miscellaneous	-	-	243	-	-
Total Deductions	<u>625</u>	<u>2,000</u>	<u>401,002</u>	<u>9,000</u>	<u>-</u>
Change in Net Assets	(493)	5,219	(48,011)	(8,812)	174
Net Assets - Beginning	<u>8,795</u>	<u>8,086</u>	<u>570,790</u>	<u>18,289</u>	<u>11,987</u>
Net Assets - Ending	<u>\$ 8,302</u>	<u>\$ 13,305</u>	<u>\$ 522,779</u>	<u>\$ 9,477</u>	<u>\$ 12,161</u>

See accompanying note to supplementary information - unaudited.

<u>Elam Scholarship</u>	<u>Fancher Scholarship</u>	<u>Fite Scholarship</u>	<u>Jackson Scholarship</u>	<u>Joyner Scholarship</u>	<u>Kiwanis Scholarship</u>	<u>Lockwood Scholarship</u>
\$ -	\$ 39,000	\$ 200	\$ -	\$ -	\$ -	\$ -
11	1,311	26	50	-	18	204
<u>11</u>	<u>40,311</u>	<u>226</u>	<u>50</u>	<u>-</u>	<u>18</u>	<u>204</u>
350	20,544	1,000	-	-	300	-
-	-	-	-	-	-	-
<u>350</u>	<u>20,544</u>	<u>1,000</u>	<u>-</u>	<u>-</u>	<u>300</u>	<u>-</u>
(339)	19,767	(774)	50	-	(282)	204
<u>1,107</u>	<u>62,980</u>	<u>2,345</u>	<u>3,481</u>	<u>109</u>	<u>1,414</u>	<u>8,352</u>
<u>\$ 768</u>	<u>\$ 82,747</u>	<u>\$ 1,571</u>	<u>\$ 3,531</u>	<u>\$ 109</u>	<u>\$ 1,132</u>	<u>\$ 8,556</u>

MERCED UNION HIGH SCHOOL DISTRICT

PRIVATE-PURPOSE SCHOLARSHIP TRUST FUNDS
 COMBINING STATEMENT OF CHANGES IN NET ASSETS - UNAUDITED
 FOR THE YEAR ENDED JUNE 30, 2006

	Martinelli Scholarship	McPherson- Hanson Scholarship	Mitchell Scholarship	Moberly Scholarship	Newhall Scholarship
ADDITIONS					
Trust income	\$ 530	\$ -	\$ 100	\$ -	\$ -
Interest income	7	2	6	89	491
Total Additions	<u>537</u>	<u>2</u>	<u>106</u>	<u>89</u>	<u>491</u>
DEDUCTIONS					
Scholarships awarded	250	-	200	200	875
Miscellaneous	-	-	-	-	-
Total Deductions	<u>250</u>	<u>-</u>	<u>200</u>	<u>200</u>	<u>875</u>
Change in Net Assets	287	2	(94)	(111)	(384)
Net Assets - Beginning	<u>468</u>	<u>121</u>	<u>529</u>	<u>5,841</u>	<u>32,006</u>
Net Assets - Ending	<u>\$ 755</u>	<u>\$ 123</u>	<u>\$ 435</u>	<u>\$ 5,730</u>	<u>\$ 31,622</u>

See accompanying note to supplementary information - unaudited.

<u>Prince Scholarship</u>	<u>Rohm Scholarship</u>	<u>Crookham Scholarship</u>	<u>Lau Scholarship</u>	<u>Souza Scholarship</u>	<u>Sodexo Scholarship</u>	<u>Dallas Scholarship</u>	<u>Purganan Scholarship</u>
\$ -	\$ -	\$ 48	\$ -	\$ 85	\$ 1,000	\$ -	\$ 2,104
3,837	1	-	155	176	4	347	15
<u>3,837</u>	<u>1</u>	<u>48</u>	<u>155</u>	<u>261</u>	<u>1,004</u>	<u>347</u>	<u>2,119</u>
11,424	(750)	500	1,000	500	250	2,000	-
-	-	-	-	-	-	-	-
<u>11,424</u>	<u>(750)</u>	<u>500</u>	<u>1,000</u>	<u>500</u>	<u>250</u>	<u>2,000</u>	<u>-</u>
(7,587)	751	(452)	(845)	(239)	754	(1,653)	2,119
156,745	(699)	3,384	9,447	11,649	6	23,340	-
<u>\$ 149,158</u>	<u>\$ 52</u>	<u>\$ 2,932</u>	<u>\$ 8,602</u>	<u>\$ 11,410</u>	<u>\$ 760</u>	<u>\$ 21,687</u>	<u>\$ 2,119</u>

MERCED UNION HIGH SCHOOL DISTRICT

**PRIVATE-PURPOSE SCHOLARSHIP TRUST FUNDS
 COMBINING STATEMENT OF CHANGES IN NET ASSETS - UNAUDITED
 FOR THE YEAR ENDED JUNE 30, 2006**

	McCollum Scholarship	Total (Memorandum Only)
ADDITIONS		
Trust income	\$ 3,041	\$ 418,631
Interest income	25	23,644
Total Additions	<u>3,066</u>	<u>442,275</u>
DEDUCTIONS		
Scholarships awarded	-	487,827
Miscellaneous	-	243
Total Deductions	<u>-</u>	<u>488,070</u>
Change in Net Assets	3,066	(45,795)
Net Assets - Beginning	<u>-</u>	<u>1,265,878</u>
Net Assets - Ending	<u>\$ 3,066</u>	<u>\$ 1,220,083</u>

See accompanying note to supplementary information - unaudited.

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION - UNAUDITED JUNE 30, 2006

NOTE 1 - PURPOSE OF SCHEDULES

General Fund Selected Financial Information - Unaudited

This schedule provides a comparison of revenues and expenditures as a percentage of total revenue for the General Fund for the past three years.

Cafeteria Account Selected Financial Information - Unaudited

This schedule provides a comparison of revenues and expenditures as a percentage of total revenue for the Cafeteria Account for the past three years.

Private Purpose Scholarship Trust Funds – Combining Statement of Net Assets and Combining Statement of Changes in Net Assets - Unaudited

These statements are included to provide additional information regarding the individual scholarship trust funds. Following is a description of the purpose and requirements for each of the scholarships.

Jim Acker Memorial Scholarship

This scholarship has been established in honor of Jim Acker who graduated from Merced High School in 1971, by the Jim Acker Memorial Scholarship Committee, to provide a scholarship for graduating seniors from Merced High School attending a two or four year college. Recipient of this scholarship will be selected by the Jim Acker Memorial Scholarship Committee based on citizenship, GPA of 3.0 or higher and participating in athletics.

John L. Alvernaz, Jr. Scholarship

The scholarship is established from the Estate of John L. Alvernaz, Jr. to be awarded to students from Merced Union High School District. No other criteria has been specified for determining eligibility for this scholarship.

Steven O. Beal Memorial Scholarship

This scholarship is established in the memory of Steven O. Beal, a former teacher of Industrial Arts in the Merced Union High School District, for eligible Industrial Arts Drafting students planning to attend a two or four-year accredited college or university. If no Industrial Arts Drafting students apply, the scholarship may be granted to any other deserving Industrial Arts student. The student must have a cumulative GPA of no less than 2.75 for the first seven semesters of high school. The awards are to be in increments of \$500 from any amount over the \$10,000 principle. This scholarship is non-renewable.

Eldon J. Callister Memorial Scholarship

This scholarship is established in honor of Eldon J. Callister to provide a scholarship each year to a student of Merced Union High School District who enrolls as a full time student at either Brigham Young University or Utah State University. An award is given annually if a graduating senior qualifies.

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION - UNAUDITED JUNE 30, 2006

Ugo Cavaiani Scholarship

This scholarship has been set up per the request of Ugo Cavaiani to award scholarships to Livingston High School graduates aspiring to be nurses.

Chamberlain Scholarship

This scholarship was established by Naomi R. Chamberlain to provide annual scholarships to worthy graduates of Merced High School District. The following requirements are to be met by the District in managing the Chamberlain Scholarship:

- The principal shall remain intact in the Trust and the income only would be distributed to worthy students.
- Scholarships are to be awarded once per year in early May or in the spring semester.
- The number of scholarships is dependent upon the amount of interest or income generated from the fund.
- Approximately one-half of the scholarships are to be awarded to students whose goal is to attend a two-year junior or community college and the remaining awarded to students whose goal is to attend a four-year college.
- Scholarships are to be awarded to students with a 3.0 GPA or better during their attendance at Merced High School.
- Consideration should be given to provide for automatic renewal for any student in continuous enrollment, up to four years at any college or university of his or her choice, as long as the student maintains a 3.0 or higher GPA.

Hugh K. Landram Memorial Scholarship

This scholarship fund is established in honor of Hugh K. Landram to provide for scholarships to be awarded to deserving students for their future education in an accredited college or university in the State of California.

John P. Montano Memorial Scholarship

This Scholarship is established in honor of John P. Montano, a former Physical Education teacher and coach in the Merced Union High School District. It provides scholarships to eligible students who competed in a varsity sport for a minimum of one season and are planning to attend a two- or four-year college or an accredited vocational school. The student must have a cumulative GPA of no less than 2.5 for the first seven semesters of high school. The awards are to be in increments of \$600 from any amount over the \$3,255 principal. This scholarship is non-renewable.

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION - UNAUDITED JUNE 30, 2006

Jay Leroy Mudd Scholarship

This scholarship is established from the Estate of Jay Leroy Mudd. The corpus shall not be impaired, but the interest shall be paid, by way of scholarships, to students from Merced Union High School for the purpose of obtaining a college education. A board consisting of the President of Merced City Chamber of Commerce, the President of Merced Rotary club, the Senior Warden of F. & A.M. Lodge #99 of Merced, and the Master of F.& A.M. Lodge #749 of Merced shall have the exclusive right to select the recipients.

Okuda Memorial Scholarship

This scholarship has been established by Franklin Okuda in memory of his son Calvin Okuda. The scholarship has a balance of over \$10,000. This is a perpetual scholarship with only the interest being awarded in the form of scholarships. The interest earned shall be split equally for two scholarships, to one male and one female graduate from Livingston High School that meet the following criteria.

- Scholarships are to be awarded to students with a 2.0 GPA or higher.
- Scholarships are to be awarded to students who are enrolled at a vocational school, community college, state college, or university.
- Scholarships are to be awarded to students who otherwise would not receive an award.

Donna Roberts Scholarship

This scholarship has been set up per the request of Eugene E. Roberts to provide a scholarship each year for a graduating senior of Yosemite High School intending to enroll in a community college the subsequent fall semester. Recipient of this scholarship shall be selected by Mr. Ron DeWong or his successor under criteria established by Mr. Eugene E. Roberts.

Rebecca Starr Roveto Scholarship

This scholarship is established to provide scholarships for graduating seniors from Atwater High School or any new high school serving Atwater students who plan to attend an accredited four year college or university in increments of \$1,000 beginning in 1998. The awards to be given will be selected by the scholarship committee designated by the Merced Union High School District to applicants who have a minimum of 3.3 GPA (4.0 scale).

AARP Scholarship

This scholarship was established by the Atwater AARP Chapter #2194 in the amount of \$9,000 to be distributed at the rate of \$1,000 per year for four scholarships, \$250 each, until the \$9,000 with its earnings has been depleted. The scholarships are to be awarded to two academic majors and two vocational majors for studies accordingly in college. The Atwater High School Scholarship Committee selects several possible academic and vocational recipients from the pool of Atwater High School Scholarship applicants and refers the names to AARP Chapter #2194 for screening and selection.

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION - UNAUDITED JUNE 30, 2006

Richard Barnes Memorial Scholarship

This scholarship was established by JoAnna Browning in the memory of Richard Barnes to provide scholarships for eligible student athletes of Atwater High School who graduate with a minimum 3.0 GPA. There will be one award recipient each year receiving \$500 if attending a two year college or \$1,000 if attending a four year college.

Christine Bloss Memorial Scholarship

This scholarship is established in honor of Christine Bloss to provide scholarships for graduating seniors. It is awarded annually to students who attend a two-year or four-year college and are graduates of Merced High School, Atwater, Livingston, Yosemite, or the Adult School. The total amount awarded annually is determined by the Board of Trustees based on earnings from trust account and time certificates. Each campus receives a stipulated amount based on the number of graduates on a percentage basis. Each school determines the number of recipients and the amount of each award. Students must attend an accredited California college or university.

Brown Memorial Scholarship

This scholarship was established to provide scholarships to Merced and Golden Valley High School graduating seniors planning to attend a two or four-year accredited college or university in increments of \$1,000 per year for four years or completion of undergraduate degree. Scholarships will be awarded to students with a 3.3 cumulative GPA. College students must have a cumulative 2.5 GPA to remain eligible.

Church Scholarship

This scholarship has been established by Mr. and Mrs. Dan Church. The Scholarship Fund has accumulated approximately \$10,000. The interest accrued each year will be awarded to a graduating Golden Valley High School male or female student athlete who has participated in at least one varsity sport and plans to attend Merced College.

Bill Elam Memorial Scholarship

This scholarship has been established in honor of Bill Elam by the Livingston Rotary Club and friends of Bill Elam for the purpose of awarding an annual scholarship to a graduating senior from Livingston High School. No other criteria has been specified for the eligibility requirements. The recipient of this scholarship will be selected by Earlane Elam and the Livingston High School Scholarship Committee.

Fred B. Fancher Scholarship

This scholarship is established in honor of Fred B. Fancher. Scholarships are granted annually to qualified graduates of the Merced Union High School District who have demonstrated an interest in the broad field of agriculture and who wish to pursue a course of study, directly or indirectly, related to the field of agriculture. Students must attend either a two-year or a four-year accredited California university or college. The amount awarded each year depends upon the availability of funds. Applicants may reapply each year and receive a scholarship for up to a maximum of four years.

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION - UNAUDITED JUNE 30, 2006

Carter Fite Memorial Scholarship

As of our audit date this scholarship did not have any restrictions or guidelines as to its use.

Betty B. Jackson Scholarship

This scholarship has been established in honor of Betty B. Jackson, per the request of Lloyd Jackson, to provide a scholarship for the first year of college for a graduating senior of Merced High School enrolling in a junior college. Recipient of this scholarship shall be selected by the Merced High School Scholarship Committee under the criteria established by Mr. Lloyd Jackson as follows:

- Financial need as determined by the Scholarship Committee.
- Minimum GPA of 2.0 based on last 5 semesters of high school grades.
- Selection cannot be made until after the Bloss and Smith Scholarships are selected.

Joyner Scholarship

This scholarship was established by the California Association of School Business Officials to be given in the name of Lydia L. Lobdell, in the amount of \$500 each year for ten years. The recipient will be selected from one high school in the District on a rotating basis. The selection will be made by a committee of business teachers at the site. The scholarship may be awarded without qualification to any graduate in need of assistance to continue their education.

Livingston Kiwanis Club Scholarship

This scholarship has been established by the Kiwanis Club of Livingston-Delhi for the purposes of awarding a yearly academic scholarship to a Livingston High School Student, beginning in 1993. The criteria is to be established by the Livingston High School Scholarship Committee.

Lester L. Lockwood Memorial Scholarship

This scholarship has been established in honor of Lester L. Lockwood with the approval of Janelle Lockwood. The Lester Lockwood Memorial Scholarship will be awarded each year to a graduating senior from Yosemite High School who plans to continue his/her education at Merced College, or the previous year's recipient who is currently enrolled at Merced College and has reapplied for the scholarship. The scholarship may be renewed one time only in the manner described above. A current college student who is reapplying will be given precedence. In the event there is no reapplication, a graduating senior from Yosemite High School will be chosen by the administration and staff at Yosemite High School.

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION - UNAUDITED JUNE 30, 2006

Angelo Martinelli Memorial Scholarship

This scholarship is established in honor of Angelo Martinelli to provide scholarships to eligible Merced High School graduates. Scholarships in the amount of \$250 will be awarded to students who have received a cumulative GPA of at least 2.75 in high school, the student may attend an accredited two-year, four-year, or a vocational school, and the student will be approved by the Martinelli family. This scholarship is non-renewable.

Lucy McPherson-Hanson Memorial Scholarship

This scholarship was established to provide annual scholarships preferably to an African American student, or other minority student, graduating from Merced High School with a minimum grade point average of 2.5. This scholarship is non-renewable.

Herbert Mitchell Memorial Scholarship

This scholarship has been established in honor of Herbert Mitchell by his widow, Mrs. Winnie Mitchell, to provide a \$200 scholarship to a deserving graduate of Merced High School. The recipient of this scholarship shall be selected by the Merced High School Scholarship Committee under the criteria established by Mrs. Winnie Mitchell as follows:

- Financial need as determined by the Scholarship Committee.
- Must be a business student.
- Must be enrolling in a local community college.
- No minimum GPA requirements.

Sanford Moberly Memorial Scholarship

This scholarship is established in memory of Sanford Moberly, an art teacher at Livingston High School. Each year an art student, selected by the Livingston High School Art Department, receives a \$200 award from this scholarship.

Henry Mayo Newhall Scholarship

This scholarship was established by a gift from the Henry Mayo Foundation. A scholarship in the amount of \$8,000 is awarded to the outstanding graduate of Merced High School who will attend a four-year college. Applicant selection criteria is the same as for the Bloss Scholarship.

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION - UNAUDITED JUNE 30, 2006

Clarence Earl Prince Scholarship

This scholarship is established from the Estate of Clarence Earl Prince to provide for scholarships to be awarded to deserving students of Merced Union High School who intend to attend college during the next academic year immediately following high school graduation. The Superintendent of the Merced Union High School District, together with the Board of Directors of Merced Rotary Club shall choose applicants and set the standards by which the applicants will be chosen. The criteria can be changed from one year to the next.

Ryan M. Rohm Memorial Scholarship

This scholarship is established in honor of Ryan Rohm to provide scholarships to eligible Golden Valley High School graduates. Three scholarships, in the amount of \$1,000 (\$500 per year for two years), will be awarded to approved students, to be eligible a student must have received a cumulative GPA of at least 3.0 in high school. This scholarship is non-renewable.

Sybil Nye Crookham Memorial Scholarship

This scholarship is established in honor of Sybil Nye Crookham. The scholarship will be awarded to seniors at either Atwater or Buhach Colony High Schools with a GPA of at least 3.0. The \$250 scholarship will be awarded to one senior at each high school.

Karina Lau Memorial Scholarship

This scholarship is established in honor of Karina Lau. The scholarship is to be awarded to a senior at Livingston High School who was involved in the music or theater program and will enroll in a two or four year college with a music or theater related degree. The scholarship will be \$1,000 a year for up to four years as long as the student continues with a music or theater major.

Crystal Souza Memorial Scholarship

This scholarship is established in honor of Crystal Souza. The scholarship is to be awarded to seniors at Livingston High School and will total \$250 a year for two students. Each \$250 scholarship will be awarded to one agriculture major and one nursing major. The students must be attending Merced College.

Sodexho Scholarship

Sodexho School Services has established this scholarship which will total two \$500 scholarships a year for students wishing to continue their education beyond high school in a vocational area. The scholarship will be rotated between all District high schools beginning with Buhach Colony and Golden Valley. The scholarship will be awarded to one student at each of the two high schools with at least a 2.5 GPA.

Dallas Athletic Scholarship (Heart Award)

This scholarship has been established at Atwater and Buhach Colony High Schools in the amounts of \$12,500 each. The \$1,000 scholarship will be awarded to a female athlete at each high school with a minimum GPA of 2.5 who has participated in athletics for a minimum of two years who will be enrolled in a two or four year college or vocational school.

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION - UNAUDITED JUNE 30, 2006

Anastacia Purganan Memorial Scholarship

This scholarship has been established in honor of Anastacia Purganan to provide scholarships to eligible Livingston High School graduates, who intend to attend Merced College for two years on a full time basis in pursuing a career as a teacher or vocational program. Two scholarships, in the amount of \$1,000 each, will be awarded to approved students with a cumulative GPA between 2.0 to 3.0 in high school.

Karen McCollum Memorial Scholarship

This scholarship was established in honor of Karen McCollum to provide a scholarship to an eligible student who attended the GED program at the Merced Adult School and is enrolling with a GPA of 2.0 or higher and at least six or more units of work at Merced Community College. The \$500 scholarship will be disbursed in two separate payments annually (August and December).

INDEPENDENT AUDITORS' REPORTS

This page left blank intentionally.



**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***

Board of Trustees
Merced Union High School District
Merced, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Merced Union High School District as of and for the year ended June 30, 2006, which collectively comprise the Merced Union High School District's basic financial statements and have issued our report thereon dated November 16, 2006. 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 Merced Union High 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of Merced Union High School District in a separate letter dated November 16, 2006.

Compliance and Other Matters

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

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

Vavrinak, Orine, Day & Co, LLP

Fresno, California
November 16, 2006



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

Board of Trustees
Merced Union High School District
Merced, California

Compliance

We have audited the compliance of Merced Union High 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, 2006. Merced Union High 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 Merced Union High School District's management. Our responsibility is to express an opinion on Merced Union High 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 Merced Union High 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 Merced Union High School District's compliance with those requirements.

In our opinion, Merced Union High 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, 2006.

Internal Control Over Compliance

The management of Merced Union High 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 Merced Union High 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 caused by error or fraud 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, and Federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Vavraček, Orsine, Day & Co., LLP

Fresno, California
November 16, 2006



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Trustees
 Merced Union High School District
 Merced, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Merced Union High School District as of and for the year ended June 30, 2006, and have issued our report thereon dated November 16, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2005-06*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance reporting	8	Yes
Kindergarten continuance	3	Not Applicable
Independent study	22	Yes
Continuation education	10	Yes
Adult education	9	Yes
Regional occupational centers and programs	6	Not Applicable
Instructional Time:		
School districts	4	Yes
County offices of education	3	Not Applicable
Community day schools	9	Not Applicable
Morgan-Hart Class Size Reduction	7	Yes
Instructional Materials:		
General requirements	12	Yes
K-8 only	1	Not Applicable
9-12 only	1	Yes
Ratios of Administrative Employees to Teachers	1	Yes

	Procedures in Audit Guide	Procedures Performed
Early retirement incentive	4	Not Applicable
Gann limit calculation	1	Yes
School Construction Funds:		
School district bonds	3	Yes
State school facilities funds	1	Yes
Alternative pension plans	2	Not Applicable
Proposition 20 Lottery Funds (Cardenas Textbook Act of 2000)	2	Yes
State Lottery Funds (California State Lottery Act of 1984)	2	Yes
California School Age Families Education (Cal-SAFE) Program	3	Not Applicable
School Accountability Report Card	3	Yes
Class Size Reduction Program (including in Charter Schools):		
General requirements	7	Not Applicable
Option one classes	3	Not Applicable
Option two classes	4	Not Applicable
District or charter schools with only one school serving K-3	4	Not Applicable
Charter Schools:		
Contemporaneous records of attendance	1	Not Applicable
Non classroom-based instruction/independent study	15	Not Applicable
Additional Non classroom-based instruction	1	Not Applicable
Determination of funding for non classroom-based instruction	3	Not Applicable
Annual instruction minutes classroom based	3	Not Applicable

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

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

Vauhnik, Urine, Day & Co., LLP

Fresno, California
November 16, 2006

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

This page left blank intentionally.

MERCED UNION HIGH SCHOOL DISTRICT

**SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2006**

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Reporting conditions identified not considered to be material weaknesses?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified?	<u>No</u>
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>84.367</u>	<u>Title II</u>
<u>10.556</u>	<u>Child Nutrition Programs</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>

MERCED UNION HIGH SCHOOL DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2006**

There were no findings representing reportable conditions, material weaknesses, nor instances of noncompliance related to the financial statements that were required to be reported in accordance with *Government Auditing Standards*.

MERCED UNION HIGH SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006**

There were no findings representing reportable conditions, material weaknesses, nor instances of noncompliance including questioned costs that were required to be reported by OMB Circular A-133.

MERCED UNION HIGH SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006**

There were no findings representing instances of noncompliance nor questioned costs relating to State program laws and regulations.

MERCED UNION HIGH SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2006**

There were no prior year findings representing reportable conditions, material weaknesses, nor instances of noncompliance related to the financial statements that were required to be reported in accordance with generally accepted government audit standards.

**MERCED UNION
HIGH SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2007

MERCED UNION HIGH SCHOOL DISTRICT
OF MERCED COUNTY
MERCED, CALIFORNIA
JUNE 30, 2007

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Tim O'Neill	President	2009
Dave M. Olsen	Vice President	2007
Dave Honey	Clerk	2009
Ida M. Johnson	Member	2009
Robert J. Weimer	Member	2007

ADMINISTRATION

Robert H. Fore, Jr., Ph.D.	Superintendent
Diane C. Hockersmith, Ed.D	Deputy Superintendent
Yvonne Eagle	Director of Fiscal Services

MERCED UNION HIGH SCHOOL DISTRICT

TABLE OF CONTENTS

JUNE 30, 2007

FINANCIAL SECTION

Independent Auditors' Report	2
Management's Discussion and Analysis	4
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets	12
Statement of Activities	13
Fund Financial Statements	
Governmental Funds - Balance Sheet	14
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	15
Governmental Funds - Statement of Revenues, Expenditures, and Changes in Fund Balance	16
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the District-Wide Statement of Activities	17
Fiduciary Funds - Statement of Net Assets	18
Fiduciary Funds - Statement of Changes in Net Assets	19
Notes to Financial Statements	20

REQUIRED SUPPLEMENTARY INFORMATION

General Fund - Budgetary Comparison Schedule	45
Special Reserve Fund for Other than Capital Outlay - Budgetary Comparison	46

SUPPLEMENTARY INFORMATION

Schedule of Expenditures of Federal Awards	48
Local Education Agency Organization Structure	49
Schedule of Average Daily Attendance	50
Schedule of Instructional Time	51
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements	52
Schedule of Financial Trends and Analysis	53
Excess Sick Leave	54
Note to Supplementary Information	55

SUPPLEMENTARY INFORMATION - UNAUDITED

Combining Statements - Non-Major Governmental Funds	
Combining Balance Sheet - Unaudited	57
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - Unaudited	58
Combining Statements - Private Purpose Scholarship Trust Funds	
Combining Statement of Net Assets - Unaudited	59
Combining Statement of Changes in Net Assets - Unaudited	60
Note to Unaudited Supplementary Information - Unaudited	65

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>	74
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	76
Report on State Compliance	78

MERCED UNION HIGH SCHOOL DISTRICT

TABLE OF CONTENTS

JUNE 30, 2007

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of Auditors' Results	81
Financial Statement Findings	82
Federal Award Findings and Questioned Costs	83
State Award Findings and Questioned Costs	84
Summary Schedule of Prior Audit Findings	86

FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Board of Trustees
Merced Union High School District
Merced, California

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2007, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The required supplementary information, such as management's discussion and analysis on pages 4 through 11 and budgetary comparison information on pages 45 and 46, is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

Vautinsek, Irvine, Day & Co., LLP

Fresno, California
September 27, 2007



Superintendent
Robert H. Fore, Ph.D.

Board of Trustees
Dave Honey
Ida M. Johnson
David M. Olsen
Tim O'Neill
Robert J. Weimer

Deputy Superintendent
Diane C. Hockersmith Ed.D

Assistant Superintendents
Raynee J. Daley, Ed.D.
Sylvia Smith

Castle Airport, 3430 A Street, Atwater, California 95301
Mailing Address: P.O. Box 2147 Merced, CA 95344
www.muhsd.k12.ca.us 209-385-6400 (Fax 209-385-6442)

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

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

The financial statements presented herein include all of the activities of the Merced Union School District (the District) 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 (including capital assets) as well as all liabilities (including long-term obligations). Additionally, certain eliminations have occurred as prescribed by the statement in regards to interfund activity, payables and receivables.

The *Fund Financial Statements* include statements for each of the two categories of activities: governmental and fiduciary.

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

The *Fiduciary Activities* are presented in the trust and agency funds, which focus reporting on net assets.

The Primary unit of the government is the Merced Union High School District.

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Assets and the Statement of Activities

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

MERCED UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007

These two statements report the District's net assets and changes in them. Net assets are the difference between assets and liabilities, which is 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. Other factors to consider are changes in the District's property tax base and the condition of the District's facilities.

The relationship between revenues and expenses is the District's *operating results*. Since the governing 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 an important component in this evaluation.

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

Governmental Activities - The District's services are reported in this category. This includes the education of grade nine through grade twelve students, adult education students, the operation of child development activities, 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, finance these activities.

Business-Type Activities - The District does not have business-type 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.

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.

MERCED UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2007

THE DISTRICT AS TRUSTEE

Reporting the Merced High School 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, scholarships, and deferred compensation. The District's fiduciary activities are reported in separate *Statements 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 total net assets were \$100.3 million for the fiscal year ended June 30, 2007, and \$87.7 million for the fiscal year ended June 30, 2006; an increase of \$12.6 million. Restricted net assets, which totaled \$37.4 million 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. The analysis below focuses on the net assets (Table 1) and change in net assets (Table 2) of the District's governmental activities for the past two fiscal years.

Table 1

(Amounts in millions)	School District Activities		Variance
	2007	2006	
Current and other assets	\$ 53.5	\$ 45.4	\$ 8.1
Capital assets	76.3	71.4	4.9
Total Assets	129.8	116.8	13.0
Current liabilities	5.2	4.4	0.8
Long-term obligations	24.3	24.7	(0.4)
Total Liabilities	29.5	29.1	0.4
Net assets			
Invested in capital assets, net of related debt	52.1	46.8	5.3
Restricted	37.4	29.2	8.2
Unrestricted	10.8	11.7	(0.9)
Total Net Assets	\$ 100.3	\$ 87.7	\$ 12.6

The \$10.8 million in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations.

MERCED UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007

Changes in Net Assets

The results of this year's operations for the District as a whole are reported in the *Statement of Activities*. Table 2 takes the information from the Statement, rounds off the numbers, and rearranges them slightly so you can see our total revenues for the past two years along with the variance between the two fiscal years.

Table 2

(Amounts in millions)	School District Activities		Variance
	2007	2006	
Revenues			
Program revenues:			
Charges for services	\$ 1.4	\$ 1.7	\$ (0.3)
Operating grants and contributions	24.2	20.1	4.1
Capital grants and contributions	1.4	-	1.4
General revenues:			
Federal and state aid not restricted	56.9	48.0	8.9
Property taxes	14.8	13.9	0.9
Other general revenues	6.5	11.6	(5.1)
Total Revenues	<u>105.2</u>	<u>95.3</u>	<u>9.9</u>
Expenses			
Instruction related	64.7	57.9	6.8
Student support services	10.7	9.5	1.2
Administration	4.9	4.6	0.3
Maintenance and operations	8.9	7.9	1.0
Other	3.4	2.3	1.1
Total Expenses	<u>92.6</u>	<u>82.2</u>	<u>10.4</u>
Change in Net Assets	<u>\$ 12.6</u>	<u>\$ 13.1</u>	<u>\$ (0.5)</u>

Governmental Activities

As reported in the *Statement of Activities*, the cost of all of our governmental activities this year was \$92.6 million as compared to \$82.2 million in the prior year. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$14.8 million because the cost was paid by other governments and organizations who subsidized certain programs with grants and contributions (\$27.0 million). We paid for the remaining "public benefit" portion of our governmental activities with \$63.4 million in State funds and other revenues, like interest and general entitlements.

In Table 3, we have presented the cost and net cost of each of the District's largest functions - instruction, pupil support services, administration, maintenance and operations, and other miscellaneous functions. 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.

MERCED UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007

Table 3

(Dollar amounts in millions)	Total Cost of Services		Net Cost of Services	
	2007	2006	2007	2006
Instruction	\$ 64.7	\$ 57.9	\$ 44.7	\$ 42.5
Pupil support services	10.7	9.5	5.6	5.0
Administration	4.9	4.6	4.0	3.7
Maintenance and operations	8.9	7.9	8.6	7.7
Other	3.4	2.3	2.7	1.5
Totals	\$ 92.6	\$ 82.2	\$ 65.6	\$ 60.4

The District's net cost of activities for the current year was \$65.6 million as compared to \$60.4 million in the prior year. A majority of the District's expenses were related to the education and support of its students (81.4%).

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds, restricted and unrestricted, reported a combined fund balance of \$48.3 million, while the prior year reported a balance of \$41.0 million, which is an increase of \$7.3 million from last year.

The primary reasons for these increases are:

- a. Our General Fund is our principal operating fund. The fund balance in the General Fund increased \$3.6 million to \$15.4 million. This increase is due to:
 1. Increased enrollment
 2. Increased State revenue
- b. Our Special Revenue Funds increased from the prior year showing a net increase of approximately \$4.4 million.
- c. The Debt Service Funds remained stable from last year.

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 on September 12, 2007. (A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report.)

- Significant revenue revisions made to the 2006-07 Budget were due to increased equalization aid that was announced by the Governor after the budget adoption.

MERCED UNION HIGH SCHOOL DISTRICT

MANAGEMENT’S DISCUSSION AND ANALYSIS

JUNE 30, 2007

CAPITAL ASSET & DEBT ADMINISTRATION

Capital Assets

At June 30, 2007, the District had \$76.3 million in a broad range of capital assets, including land, buildings, and furniture and equipment, while at June 30, 2006, the net fixed assets totaled \$71.4 million. This amount represents a net increase (including additions, deductions and depreciation) of just over \$4.9 million.

Table 4

(Amounts in millions)

	Governmental Activities		Variance
	2007	2006	
Land	\$ 11.1	\$ 11.0	\$ 0.1
Construction in progress	5.8	5.4	0.4
Buildings and improvements	54.8	51.4	3.4
Equipment	4.6	3.6	1.0
Totals	\$ 76.3	\$ 71.4	\$ 4.9

This year’s additions of \$11.7 included several vehicles, land, site and building improvements and classroom equipment such as computers.

Long-Term Obligations

At the end of this year, the District had \$24.3 million in debt outstanding versus \$24.7 million last year, a decrease of 1.7 percent. General Obligations bonds consisted of: 1999 Current Interest Bonds, Series A and 1999 Capital Appreciation Bonds, Series A. Under GASB 34 reporting guidelines, the liability for our retiree health benefits is no longer included as long-term obligations; however, the amount (\$15.9 million) is disclosed in the Notes to the Financial Statements.

Table 5

(Amounts in millions)

	Governmental Activities		Variance
	2007	2006	
General obligation bonds	\$ 23.8	\$ 24.2	\$ (0.4)
Compensated absences	0.1	0.1	-
Capitalized lease obligations	0.4	0.4	-
Totals	\$ 24.3	\$ 24.7	\$ (0.4)

The District’s general obligation bond rating continues to be "Series A." The State limits the amount of general obligation debt that District’s can issue to 35 percent of the assessed value of all taxable property within the District’s boundaries.

MERCED UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2005-06 ARE NOTED BELOW:

In the 2006-07 school year, the Board adopted new English Language Arts for English Language Learners books in line with the California State adoption for ELL, Visions. This was so that texts would be aligned to state standards tested on the CAHSEE and the CST; and so that teachers could access state professional development funds in order to effectively prepare to teach the standards. This was also in support of the SAIT plan prescribed for one of our high schools. Newly State-adopted materials for CAHSEE math were also purchased. All in all, the Board invested more than \$1,500,000 in books, software and materials to include new adoptions; more students being provided books and materials as a result of growth; and, beyond that, the cost of keeping approximately 30 sections district wide below 20 for the purpose of providing three hours of reading, two hours of English Language Arts, and two hours of math intervention to our lowest performers. Smaller sections were supported by general, Class Size Reduction, Supplemental Instruction, and Title I funds. Reading achievement data for the 2006-07 school year shows that students in intensive intervention for three hours a day grew on the average of 2.2 to 2.8 grade levels in a single year, something of which we are very proud. The extra time devoted to intensive instruction allows students to close reading and math gaps and rejoin their peers in grade level instruction at the completion of the year.

The district used MediCal Administrative Activities funds this year to provide expanded health services for students who have needs such that they would be unable to maintain regular attendance without support. More than \$450,000 in MAA funds made these services possible. Such students include asthmatics, diabetics, epileptics, and students who require regular medical procedures throughout the day as a result of severe physical handicap, as well as other special education students and their teachers. As a result of these services, many students who might otherwise have been isolated, or may have not been able to attend sufficiently to graduate, may become successful in and graduate from high school, and, we hope, go on to college and/or gainful employment.

The district continues to benefit from a federal GEAR UP grant which allows us to prepare students at Atwater and Buhach Colony High Schools with the tools they need to go on to college. We are currently in our sixth-year no-cost extension. This means the grant will conclude in 2007-08. The total award after the fifth year (2006-07), before the extension, was more than \$3.3 million, with the 2007-08 funded extension being more than \$900,000.

In order to train teachers to deliver state adopted programs, State professional development funds were allocated in the approximate amount of \$87,500 to provide five days of training to each new instructor using the REACH, Holt, and Prentice Hall materials, as well as providing 80 hours of support and mentorship as follow-up.

The district continues to use a computer application, called Edusoft, which allows teachers to study student performance on the standards by collecting student responses to assessments given in the classroom, school wide, and at the standardized testing level. Teachers are able to use the information recorded in Edusoft to daily assess student progress and modify their instruction accordingly. The Board allocated approximately \$75,000 for this endeavor during 2006-7.

The district expended approximately \$722,508 in AB 1802 funds and \$150,000 in district general funds to hire and provide offices for 12 new counselors. These counselors enable the schools to meet once with each family in person to provide needed advisement, and more than once for students at risk of not passing the CAHSEE and/or passing all courses needed for graduation.

MERCED UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2007

The district received a Federal Library Grant, Improving School Literacy Through Libraries, in 2006-07, in the amount of \$300,000. This was expended to update and expand library reading materials for a growing, diverse student population.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

At the time the District budget was developed, a State budget was not yet adopted. Much of the District's budget is based upon the Governor's *May Revise* tempered with recommendations from School Services of California and the Merced County Office of Education. Budget Assumptions were presented to and accepted by the Merced Union High School District Governing Board on June 27, 2007.

Some noteworthy components included in this budget are listed below.

- Revenue
 - COLA of 4.53 %
 - Deficit factor of 0.0 %
 - Funded ADA budgeted at 9,898
 - No Equalization aid was budgeted
 - Lottery budgeted at \$118 per ADA for unrestricted and \$19 per ADA for restricted instructional materials
- Expenditures
 - Will match the income for State and Federal Categorical programs
 - Food Services Program will be self-supporting with no encroachments into the General Fund
 - All employees have been moved to the next appropriate step on the salary schedule
 - Ongoing Major Maintenance account expenditures have been budgeted at 3.0 percent

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:

Diane C. Hockersmith, Ed.D
Deputy Superintendent, Business Services
Merced Union High School District
3430 A Street, Castle Airport
Atwater, California 95301

Telephone number: (209) 385-6411
e-mail: dhockersmith@muhsd.k12.ca.us

MERCED UNION HIGH SCHOOL DISTRICT

STATEMENT OF NET ASSETS
JUNE 30, 2007

	<u>Governmental Activities</u>
ASSETS	
Deposits and investments	\$ 43,850,291
Receivables	9,361,122
Stores inventories	306,893
Nondepreciable capital assets	16,876,725
Capital assets being depreciated	99,527,612
Accumulated depreciation	<u>(40,067,651)</u>
Total Assets	<u>129,854,992</u>
LIABILITIES	
Accounts payable	4,891,432
Deferred revenue	334,577
Current portion of long-term obligations	1,517,153
Noncurrent portion of long-term obligations	<u>22,783,039</u>
Total Liabilities	<u>29,526,201</u>
NET ASSETS	
Invested in capital assets, net of related debt	52,127,006
Restricted for:	
Debt service	2,558,172
Capital projects	10,308,271
Educational programs	4,476,932
Other activities	20,024,113
Unrestricted	<u>10,834,297</u>
Total Net Assets	<u>\$ 100,328,791</u>

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

MERCED UNION HIGH SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007

Functions/Programs	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Instruction	\$ 52,607,174	\$ 443,702	\$ 15,387,308	\$ 1,402,586
Instruction-related activities:				
Supervision of instruction	2,406,275	647	1,416,018	-
Instructional library, media and technology	1,509,201	-	286,890	-
School site administration	8,142,726	5,540	1,015,605	-
Pupil services:				
Home-to-school transportation	2,090,072	30,650	590,461	-
Food services	3,314,527	813,425	2,111,112	-
All other pupil services	5,328,870	894	1,604,503	-
General administration:				
Data processing	930,887	-	-	-
All other general administration	4,001,169	4,758	928,517	-
Plant services	8,866,153	4,199	311,262	-
Ancillary services	1,397,293	128,479	527,344	-
Enterprise services	324,026	-	-	-
Interest on long-term obligations	1,279,128	-	-	-
Other outgo	427,782	-	-	-
Total Governmental-Type Activities	\$ 92,625,283	\$ 1,432,294	\$ 24,179,020	\$ 1,402,586
General revenues and subventions:				
Property taxes, levied for general purposes				
Property taxes, levied for debt service				
Taxes levied for other specific purposes				
Federal and State aid not restricted to specific purposes				
Interest and investment earnings				
Miscellaneous				
Subtotal, General Revenues				
Change in Net Assets				
Net Assets - Beginning				
Net Assets - Ending				

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

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

**Governmental
Activities**

\$	(35,373,578)
	(989,610)
	(1,222,311)
	(7,121,581)
	(1,468,961)
	(389,990)
	(3,723,473)
	(930,887)
	(3,067,894)
	(8,550,692)
	(741,470)
	(324,026)
	(1,279,128)
	(427,782)
	<hr/>
	(65,611,383)
	<hr/>
	13,211,092
	1,597,486
	35,904
	56,912,799
	1,332,931
	5,127,056
	<hr/>
	78,217,268
	<hr/>
	12,605,885
	87,722,906
\$	<hr/>
	100,328,791
	<hr/>

MERCED UNION HIGH SCHOOL DISTRICT

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

	General Fund	Special Reserve Non-Capital Fund	Capital Facilities Fund
ASSETS			
Deposits and investments	\$ 10,421,532	\$ 17,239,922	\$ 5,723,561
Receivables	8,541,211	-	113,359
Due from other funds	193,967	-	61,856
Stores inventories	194,004	-	-
Total Assets	\$ 19,350,714	\$ 17,239,922	\$ 5,898,776
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 3,475,613	\$ -	\$ 564,513
Due to other funds	193,732	-	-
Deferred revenue	279,628	-	-
Total Liabilities	3,948,973	-	564,513
FUND BALANCES			
Reserved	4,690,936	-	-
Unreserved:			
Designated	10,710,805	17,239,922	5,334,263
Undesignated, reported in:			
Special revenue funds	-	-	-
Debt service funds	-	-	-
Total Fund Balance	15,401,741	17,239,922	5,334,263
Total Liabilities and Fund Balances	\$ 19,350,714	\$ 17,239,922	\$ 5,898,776

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

Non-Major Governmental Funds	Total Governmental Funds
\$ 10,465,276	\$ 43,850,291
706,552	9,361,122
133,351	389,174
112,889	306,893
<u>\$ 11,418,068</u>	<u>\$ 53,907,480</u>
\$ 851,306	\$ 4,891,432
195,442	389,174
54,949	334,577
<u>1,101,697</u>	<u>5,615,183</u>
113,331	4,804,267
6,413,980	39,698,970
1,230,888	1,230,888
2,558,172	2,558,172
<u>10,316,371</u>	<u>48,292,297</u>
<u>\$ 11,418,068</u>	<u>\$ 53,907,480</u>

MERCED UNION HIGH SCHOOL DISTRICT

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

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

Total Fund Balance - Governmental Funds		\$ 48,292,297
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	\$ 116,404,337	
Accumulated depreciation is	<u>(40,067,651)</u>	
Total capital assets		76,336,686
Long-term liabilities at year end consist of:		
General obligation bonds - current interest bonds	(9,405,000)	
General obligation bonds - capital appreciation bonds	(14,350,084)	
State school building loans payable	(5,027)	
Compensated absences	(90,512)	
Capital lease obligations	<u>(449,569)</u>	
Total long-term liabilities		(24,300,192)
Total Net Assets - Governmental Activities		<u><u>\$ 100,328,791</u></u>

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

MERCED UNION HIGH SCHOOL DISTRICT

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

	General Fund	Special Reserve Non-Capital Fund
REVENUES		
Revenue limit sources	\$ 66,005,259	\$ -
Federal sources	7,170,843	-
Other state sources	16,324,170	-
Other local sources	1,967,331	805,441
Total Revenues	<u>91,467,603</u>	<u>805,441</u>
EXPENDITURES		
Current		
Instruction	49,661,349	-
Instruction-related activities:		
Supervision of instruction	2,297,604	-
Instructional library, media and technology	1,421,697	-
School site administration	7,541,192	-
Pupil Services:		
Home-to-school transportation	1,766,660	-
Food services	34,241	-
All other pupil services	5,209,654	-
General administration:		
Data processing	956,791	-
All other general administration	3,971,068	-
Plant services	8,271,364	-
Facility acquisition and construction	69,682	-
Ancillary services	1,397,293	-
Other outgo	427,782	-
Enterprise services	324,026	-
Debt service		
Principal	16,740	-
Interest and other	8,898	-
Total Expenditures	<u>83,376,041</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>8,091,562</u>	<u>805,441</u>
Other Financing Sources (Uses):		
Transfers in	508,324	2,710,649
Other sources	-	-
Transfers out	(5,004,379)	-
Net Financing Sources (Uses)	<u>(4,496,055)</u>	<u>2,710,649</u>
NET CHANGE IN FUND BALANCES	<u>3,595,507</u>	<u>3,516,090</u>
Fund Balance - Beginning	<u>11,806,234</u>	<u>13,723,832</u>
Fund Balance - Ending	<u>\$ 15,401,741</u>	<u>\$ 17,239,922</u>

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

Capital Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ 1,961,021	\$ 67,966,280
-	2,341,654	9,512,497
-	2,876,703	19,200,873
2,349,698	3,429,048	8,551,518
<u>2,349,698</u>	<u>10,608,426</u>	<u>105,231,168</u>
-	1,420,138	51,081,487
-	108,671	2,406,275
-	-	1,421,697
-	520,885	8,062,077
-	822,017	2,588,677
-	3,197,107	3,231,348
-	61,506	5,271,160
-	-	956,791
6,871	186,066	4,164,005
278,587	357,565	8,907,516
4,330,658	1,619,720	6,020,060
-	-	1,397,293
-	-	427,782
-	-	324,026
109,471	1,207,577	1,333,788
15,078	478,234	502,210
<u>4,740,665</u>	<u>9,979,486</u>	<u>98,096,192</u>
<u>(2,390,967)</u>	<u>628,940</u>	<u>7,134,976</u>
-	3,672,916	6,891,889
136,500	-	136,500
-	(1,887,510)	(6,891,889)
<u>136,500</u>	<u>1,785,406</u>	<u>136,500</u>
<u>(2,254,467)</u>	<u>2,414,346</u>	<u>7,271,476</u>
7,588,730	7,902,025	41,020,821
<u>\$ 5,334,263</u>	<u>\$ 10,316,371</u>	<u>\$ 48,292,297</u>

MERCED UNION HIGH SCHOOL DISTRICT

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

Total Net Change in Fund Balances - Governmental Funds **\$ 7,271,476**
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:

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

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

Capital outlays	\$ 7,582,599	
Depreciation expense	<u>(2,662,742)</u>	4,919,857

Interest accrued during the year on the State School Building Loans is considered principal reduction. The amount of interest charged on the loans for the year was: (230)

Some of the capital assets acquired this year were financed with capital leases. The amount financed by the leases is reported in the governmental funds as a source of financing. On the other hand, the capital leases are not revenues in the statement of activities, but rather constitute long-term liabilities in the statement of net assets. (136,500)

Interest on long-term obligations in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is the result of \$776,688 of additional accumulated interest was accreted on the District's "capital appreciation" general obligation bonds. (776,688)

In the statement of activities compensated absences (vacations) is measured by the amounts earned during the year. In the governmental funds, however, expenditures for this item are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation earned was more than the amounts used by \$5,818. (5,818)

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

General obligation bonds	1,205,000
State school building loans	2,577
Capital lease obligations	<u>126,211</u>

Change in Net Assets of Governmental Activities **\$ 12,605,885**

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

MERCED UNION HIGH SCHOOL DISTRICT

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

	Private- Purpose Trusts	Agency		Total
	Scholarships	Deferred Compensation	Student Body	
ASSETS				
Deposits and investments	\$ 1,278,633	\$ 2,192,042	\$ 679,797	\$ 4,150,472
Total Assets	<u>\$ 1,278,633</u>	<u>\$ 2,192,042</u>	<u>\$ 679,797</u>	<u>\$ 4,150,472</u>
LIABILITIES				
Due to student groups and employees	-	2,192,042	679,797	2,871,839
Total Liabilities	<u>-</u>	<u>2,192,042</u>	<u>679,797</u>	<u>2,871,839</u>
NET ASSETS				
Reserved for scholarships	1,278,633	-	-	1,278,633
Total Net Assets	<u>\$ 1,278,633</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,278,633</u>

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

MERCED UNION HIGH SCHOOL DISTRICT

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2007

	<u>Private- Purpose Trusts</u>
	<u>Scholarships</u>
ADDITIONS	
Trust income	\$ 466,630
Interest	39,620
Total Additions	<u>506,250</u>
DEDUCTIONS	
Scholarships awarded	447,700
Total Deductions	<u>447,700</u>
Change in Net Assets	58,550
Net Assets - Beginning	1,220,083
Net Assets - Ending	<u>\$ 1,278,633</u>

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

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Merced Union High School District was established in 1915 and comprises the area of approximately 625 square miles located in Merced County. The District operates under a locally-elected five-member Board form of government and provides educational services to grades 9 - 12 as mandated by the State and/or Federal agencies. The District is currently operating schools in the cities of Atwater, Livingston and Merced. The City of Merced has three campuses. Merced High School and Golden Valley High Schools have classes at the ninth through twelfth grade levels. East Campus Educational Center (ECEC) supports four educational programs: Yosemite High School which serves as the District's continuation school; Independence High School which provides independent study opportunities; classes for students from Merced and Golden Valley High School; and the main facility for the Adult School Program is located at ECEC. The City of Atwater has two campuses. Atwater High School has classes at the ninth through twelfth grade levels. Buhach Colony High School opened in August of 2001 with classes at the ninth through twelfth grade levels.

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

Component Units

Component units are legally separate organizations for which the District may be financially accountable. Component units may include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units may be other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. The District has no component units.

Other Related Entities

Joint Powers Agencies and Public Entity Risk Pools The District is associated with three public entity risk pools. These organizations do not meet the criteria for inclusion as component units of the District. Additional information is presented in Note 15 to the financial statements. These organizations are:

Self-Insured Schools of California Health and Welfare Program
Self-Insured Schools of California Property and Liability Program
Merced County Schools Insurance Group

Basis of Presentation - Fund Accounting

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

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

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

Major Governmental Funds

General Fund The General Fund 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.

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

Capital 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).

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:

Adult Education Fund The Adult Education Fund is used to account for resources committed to adult education programs maintained by the District.

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

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

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

Pupil Transportation Equipment Fund The Pupil Transportation Equipment Fund is used to account for resources committed to the acquisition, rehabilitation, or replacement of equipment used to transport students.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

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.

Tax Override Fund The Tax Override Fund is used for the repayment of voted indebtedness tax levies to be financed from ad valorem tax levies.

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:

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.

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

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

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into two classifications: private-purpose trust funds and agency funds.

Trust funds are used to account for the assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's trust funds are scholarship and deferred compensation accounts. 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).

Basis of Accounting - Measurement Focus

Government-Wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each governmental function. Direct expenses are those that are specifically associated with a service, program, or department and are therefore, clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the Statement of Activities, except for depreciation. 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 or business segment is self-financing or draws from the general revenues of the District.

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

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

Governmental Funds All governmental funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide financial 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. Generally, available is defined as collectible within 45 or 60 days. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

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

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

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

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

Cash and Cash Equivalents

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

Investments

Investments held at June 30, 2007, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county pools are determined by the program sponsor.

Restricted Assets

Restricted assets arise when restrictions on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation.

Stores Inventory

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

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

Capital Assets and Depreciation

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

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

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

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities columns of the statement of net assets.

Compensated Absences

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

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

Accrued Liabilities and Long-Term Obligations

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

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

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 governmental fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases, and other long-term obligations are recognized as liabilities in the governmental fund financial statements when due.

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.

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.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The government-wide financial statements reports \$37,367,488 of restricted net assets, of which \$16,485,854 is restricted by enabling legislation.

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 and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented in the financial statements. Interfund transfers are eliminated in the governmental activities column of the *Statement of Activities*.

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.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

Budgetary Data

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

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

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 Merced bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

New Accounting Pronouncements

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

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

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

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

In June 2005, the GASB issued GASBS No. 47, *Accounting for Termination Benefits*. GASBS No. 47 addresses accounting for both voluntary and involuntary termination benefits. For termination benefits that affect an employer's obligations for defined benefit OPEB, the provisions of GASBS No. 47 should be applied simultaneously with the requirements of GASBS No. 45. For all other termination benefits, including those that affect an employer's obligations for defined benefit pension benefits, GASBS No. 47 is effective for financial statements for periods beginning after June 15, 2005. Earlier application of GASBS No. 47 is encouraged.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

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

Governmental activities	\$ 43,850,291
Fiduciary funds	4,150,472
Total Deposits and Investments	<u>\$ 48,000,763</u>

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

Cash on hand and in banks	\$ 1,958,830
Cash in revolving	20,442
Investments	46,021,491
Total Deposits and Investments	<u>\$ 48,000,763</u>

Policies and Practices

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

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

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

General Authorizations

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Pool and purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Segmented Time Distribution

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following schedule that shows the distribution of the District's investments by maturity:

Investment Type	Fair Value	12 Months or Less	13 - 24 Months	25 - 60 Months	More Than 60 Months
Mutual Funds	\$ 2,192,042	\$ 2,192,042	\$ -	\$ -	\$ -
County Pool	43,829,449	43,829,449	-	-	-
Total	<u>\$46,021,491</u>	<u>\$46,021,491</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of the year-end for each investment type.

Investment Type	Fair Value	Minimum Legal Rating	Rating as of Year End		
			AAA	Aa	Unrated
Mutual Funds	\$ 2,192,042	N/A	\$ -	\$ -	\$ 2,192,042
County Pool	43,829,449	N/A	-	-	43,829,449
Total	<u>\$ 46,021,491</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ 46,021,491</u>

N/A - Not applicable

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government code. There were no investments in any one issuer that represent five percent or more of the total investments.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2007, the District's bank balance of \$1,671,045 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

Custodial Credit Risk - Investments

This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. Of the investment in Mutual Funds of \$2,192,042, the District has a custodial credit risk exposure of \$2,192,042, because the related securities are uninsured, unregistered and held by the brokerage firm which is also the counterparty for these securities. The District does not have a policy limiting the amount of securities that can be held by counterparties.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 3 - RECEIVABLES

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

	General Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total
Federal Government				
Categorical aid	\$ 1,864,967	\$ -	\$ 272,274	\$ 2,137,241
State Government				
Apportionment	4,195,146	-	290,584	4,485,730
Categorical aid	1,463,142	-	5,410	1,468,552
Lottery	798,697	-	-	798,697
Local Sources	219,259	113,359	138,284	470,902
Total	<u>\$ 8,541,211</u>	<u>\$ 113,359</u>	<u>\$ 706,552</u>	<u>\$ 9,361,122</u>

NOTE 4 - CAPITAL ASSETS

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

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
Governmental Activities				
Capital Assets not being depreciated				
Land	\$ 10,965,940	\$ 100,000	\$ -	\$ 11,065,940
Construction in progress	5,404,348	4,497,308	4,090,871	5,810,785
Total Capital Assets Not Being Depreciated	<u>16,370,288</u>	<u>4,597,308</u>	<u>4,090,871</u>	<u>16,876,725</u>
Capital Assets being depreciated				
Land improvements	14,502,251	120,374	-	14,622,625
Buildings and improvements	67,477,979	5,393,251	-	72,871,230
Furniture and equipment	10,494,965	1,562,537	23,745	12,033,757
Total Capital Assets Being Depreciated	<u>92,475,195</u>	<u>7,076,162</u>	<u>23,745</u>	<u>99,527,612</u>
Less Accumulated Depreciation				
Land improvements	8,007,137	491,552	-	8,498,689
Buildings and improvements	22,565,034	1,580,782	-	24,145,816
Furniture and equipment	6,856,483	590,408	23,745	7,423,146
Total Accumulated Depreciation	<u>37,428,654</u>	<u>2,662,742</u>	<u>23,745</u>	<u>40,067,651</u>
Governmental Activities Capital Assets, Net	<u>\$ 71,416,829</u>	<u>\$ 9,010,728</u>	<u>\$ 4,090,871</u>	<u>\$ 76,336,686</u>

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

Depreciation expense was charged to governmental functions as follows:

Governmental Activities

Instruction	\$ 1,684,730
Instructional library, media, and technology	98,810
School site administration	80,649
Home-to-school transportation	323,412
Food services	83,179
All other pupil services	51,892
Data processing	6,525
All other general administration	55,484
Plant services	278,061
Total Depreciation Expenses Governmental Activities	<u>\$ 2,662,742</u>

NOTE 5 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances at June 30, 2007, are as follows:

	Interfund Receivables	Interfund Payables
General	\$ 193,967	\$ 193,732
Adult	-	86,472
Child Development	-	21,913
Cafeteria	35,957	87,057
Capital Facilities	61,856	-
Special Reserve - Capital Outlay	97,394	-
Total	<u>\$ 389,174</u>	<u>\$ 389,174</u>

MERCED UNION HIGH SCHOOL DISTRICT

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

Operating Transfers

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

The General Fund transferred to the Deferred Maintenance Fund for the required State match.	\$ 335,948
The General Fund transferred to the Cafeteria Fund for a temporary loan.	505,000
The General Fund transferred to the Special Reserve - Other than Capital Outlay Fund to fund special projects.	2,710,649
The General Fund transferred to the Special Reserve - Capital Outlay Fund for future capital projects.	1,052,782
The General Fund transferred to the Pupil Transportation Fund for a temporary loan.	400,000
The County School Facilities transferred to the Special Reserve - Capital Outlay Fund for to reimburse costs paid by the Special Reserve - Capital Outlay Fund.	1,379,186
The Cafeteria Fund transferred to the General Fund to pay back temporary loan.	508,324
Total	<u><u>\$ 6,891,889</u></u>

NOTE 6 - ACCOUNTS PAYABLE

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

	General Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total
Vendor payables	\$ 1,745,031	\$ 564,513	\$ 851,306	\$ 3,160,850
State apportionment	1,730,582	-	-	1,730,582
Total	<u><u>\$ 3,475,613</u></u>	<u><u>\$ 564,513</u></u>	<u><u>\$ 851,306</u></u>	<u><u>\$ 4,891,432</u></u>

NOTE 7 - DEFERRED REVENUE

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

	General Fund	Non-Major Governmental Funds	Total
Federal financial assistance	\$ 210,687	\$ 38,701	\$ 249,388
State categorical aid	68,941	-	68,941
Other local	-	16,248	16,248
Total	<u><u>\$ 279,628</u></u>	<u><u>\$ 54,949</u></u>	<u><u>\$ 334,577</u></u>

MERCED UNION HIGH SCHOOL DISTRICT

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

NOTE 8 - LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2006	Additions and Accretion	Deductions	Balance June 30, 2007	Due in One Year
1999 Current Interest Bonds, Series A	\$10,610,000	\$ -	\$1,205,000	\$ 9,405,000	\$ 1,300,000
1999 Capital Appreciation Bonds, Series A	13,573,396	776,688	-	14,350,084	-
State school building loans	7,374	230	2,577	5,027	2,577
Accumulated vacation - net	84,694	5,818	-	90,512	90,512
Capital leases	439,280	136,500	126,211	449,569	124,064
Total	<u>\$24,714,744</u>	<u>\$ 919,236</u>	<u>\$1,333,788</u>	<u>\$ 24,300,192</u>	<u>\$ 1,517,153</u>

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Bond Issue	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2006	Accreted/ (Redeemed)	Bonds Outstanding June 30, 2007
Current Interest							
Series A	08/01/99	08/01/12	4.5 to 5.5%	\$ 10,610,000	\$ 10,610,000	\$(1,205,000)	\$ 9,405,000
Capital Appreciation							
Series A	08/01/12	08/01/24	5.4 to 5.75%	13,573,396	13,573,396	776,688	14,350,084
Total				<u>\$24,183,396</u>	<u>\$24,183,396</u>	<u>\$ (428,312)</u>	<u>\$ 23,755,084</u>

The Merced Union High School District 1999 General Obligation Bonds, Series A, in the aggregate principal amount of \$24,631,061, are being issued by the Board of Supervisors of the County of Merced on behalf of the Merced Union High School District. The Series A Bonds represent a general obligation of the District, payable solely from *ad valorem* property taxes levied and collected by the County of Merced.

Interest with respect to the Current Interest Series A Bonds accrues from August 1, 1999, and is payable semiannually commencing February 1, 2000. The Capital Appreciation Series A Bonds are dated the date of delivery of the Series A Bonds and accrete interest from such date, compounded semiannually on February 1 and August 1 of each year, commencing February 1, 2000. Both series are issuable as fully registered Series A bonds.

MERCED UNION HIGH SCHOOL DISTRICT

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

Debt Service Requirements to Maturity

1999 Current Interest, Series A - Payment Summary

The bonds mature through 2013 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2008	\$ 1,300,000	\$ 421,782	\$ 1,721,782
2009	1,400,000	360,333	1,760,333
2010	1,500,000	293,632	1,793,632
2011	1,615,000	220,776	1,835,776
2012	1,730,000	140,035	1,870,035
2013	1,860,000	48,825	1,908,825
Total	<u>\$ 9,405,000</u>	<u>\$ 1,485,383</u>	<u>\$ 10,890,383</u>

1999 Capital Appreciation, Series A - Accretion Summary:

<u>Maturity</u>	<u>Accreted Obligation</u>	<u>Unaccreted Interest</u>	<u>Final Maturity</u>
2014	\$ 1,452,720	\$ 547,280	\$ 2,000,000
2015	1,398,760	646,240	2,045,000
2016	1,348,782	741,218	2,090,000
2017	1,301,762	838,238	2,140,000
2018	1,251,612	933,388	2,185,000
2019	1,204,419	1,030,581	2,235,000
2020	1,160,003	1,124,997	2,285,000
2021	1,122,662	1,217,338	2,340,000
2022	1,080,734	1,309,266	2,390,000
2023	1,044,675	1,400,325	2,445,000
2024	1,009,300	1,490,700	2,500,000
2025	974,655	1,580,345	2,555,000
Total	<u>\$ 14,350,084</u>	<u>\$ 12,859,916</u>	<u>\$ 27,210,000</u>

State and Public School Building Loans

State school building loans outstanding as of June 30, 2007, are as follows:

<u>Year Disbursed</u>	<u>Interest Rate</u>	<u>Balance July 1, 2006</u>	<u>Interest Charge</u>	<u>Repayment and State Credit Current Year</u>	<u>Outstanding June 30, 2007</u>
1986-87	4.80%	<u>\$ 7,374</u>	<u>\$ 230</u>	<u>\$ 2,577</u>	<u>\$ 5,027</u>

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

The State and Public School Building Loans are secured by all sites purchased and improved, all equipment purchased, and all buildings constructed, reconstructed, altered, or added to through the expenditure of such funds in accordance with Section 16019 of the Education Code.

Annual repayment is determined by the State Controller in accordance with Section 16214 of the Education Code.

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2007, amounted to \$90,512.

Capital Leases

The District has entered into various capital lease arrangements at June 30, 2007. The District's liability on lease agreements with options to purchase are summarized below:

Balance, July 1, 2006	\$ 439,280
Additions	136,500
Payments	126,211
Balance, June 30, 2007	<u>\$ 449,569</u>

The capital leases have minimum lease payments as follows:

<u>Year Ending June 30,</u>	<u>Lease Payment</u>
2008	\$ 144,231
2009	143,643
2010	143,054
2011	48,129
2012	17,328
Total	<u>496,385</u>
Less: Amount Representing Interest	46,816
Present Value of Minimum Lease Payments	<u>\$ 449,569</u>

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 9 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Special Reserve Non-Capital Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total
Reserved					
Revolving cash	\$ 20,000	\$ -	\$ -	\$ 442	\$ 20,442
Stores inventory	194,004	-	-	112,889	306,893
Restricted programs	4,476,932	-	-	-	4,476,932
Total Reserved	<u>4,690,936</u>	<u>-</u>	<u>-</u>	<u>113,331</u>	<u>4,804,267</u>
Unreserved					
Designated					
Economic uncertainties	2,598,797	-	-	-	2,598,797
Other designation	8,112,008	17,239,922	5,334,263	6,413,980	37,100,173
Total Designated	<u>10,710,805</u>	<u>17,239,922</u>	<u>5,334,263</u>	<u>6,413,980</u>	<u>39,698,970</u>
Undesignated	-	-	-	3,789,060	3,789,060
Total Unreserved	<u>10,710,805</u>	<u>17,239,922</u>	<u>5,334,263</u>	<u>10,203,040</u>	<u>43,488,030</u>
Total	<u>\$15,401,741</u>	<u>\$17,239,922</u>	<u>\$5,334,263</u>	<u>\$10,316,371</u>	<u>\$48,292,297</u>

NOTE 10 - EXPENDITURES (BUDGET VERSUS ACTUAL)

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

Fund	Expenditures and Other Uses		
	Budget	Actual	Excess
General			
Other outgo	\$ 164,501	\$ 241,714	\$ 77,213

NOTE 11 - POSTEMPLOYMENT BENEFITS

The District provides postemployment health care benefits, in accordance with District employment contracts, to all employees who retire from the District on or after attaining age 55 with at least ten years of service. Currently, 129 employees meet those eligibility requirements. The District contributes a negotiated portion of the amount of premiums incurred by retirees and their dependents and the retiree contributes the remainder. Expenditures for postemployment benefits are recognized on a pay-as-you-go basis, as premiums are paid. During the year, expenditures of \$1,349,451 were recognized for retirees' health care benefits.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

The approximate accumulated future liability for the District at June 30, 2007, amounts to \$15,946,139. The estimated liability is based on an actuarial study performed at August 31, 2006.

NOTE 12 - RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2007, the District contracted with Self Insured Schools of California for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

Workers' Compensation

For fiscal year 2007, the District participated in the Merced County Schools Insurance Group, an insurance purchasing pool. The intent of the Merced County Schools Insurance Group is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Merced County Schools Insurance Group. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in the Merced County Schools Insurance Group. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage. A participant will then either receive money from or be required to contribute to the "equity-pooling fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the Merced County Schools Insurance Group. Participation in the Merced County Schools Insurance Group is limited to districts that can meet the Merced County Schools Insurance Group selection criteria.

Coverage provided by MCSIG for property and liability and workers' compensation is as follows:

<u>Insurance Program / Company Name</u>	<u>Type of Coverage</u>	<u>Limits</u>
<u>Workers' Compensation Program</u>		
Merced County Schools Insurance Group	Workers' Compensation	\$ 19,000,000 per year \$ 250,000 per occurrence
<u>Excess Property and Liability Program</u>		
School Excess Liability Fund (SELF)	Excess Property and Liability	Per occurrence: \$ 25,000,000-Liability, Auto. \$ 75,000,000-Property \$ 250,000-Compreh. Crime \$ 15,000,000-Boiler and Machinery \$ 2,500-Student Accident

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

Employee Medical Benefits

The District has contracted with the Self Insured Schools of California Health and Welfare Program to provide employee medical and surgical benefits. Self Insured Schools of California Health and Welfare Program is a shared risk pool comprised of agencies within California. Rates are set through an annual calculation process. The District pays a monthly contribution, which is placed in a common fund from which claim payments are made for all participating Districts. Claims are paid for all participants regardless of claims flow. The Board of Directors has a right to return monies to a district subsequent to the settlement of all expenses and claims if a district withdraws from the pool.

NOTE 13 - 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).

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 year 2006-2007 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to STRS for the fiscal years ending June 30, 2007, 2006, and 2005, were \$3,268,128, \$2,969,597, and \$2,792,468, respectively, and equal 100 percent of the required contributions for each year.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

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 salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2006-2007 was 9.952 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2007, 2006, and 2005, were \$1,046,691, \$968,969, and \$999,665, respectively, and equal 100 percent of the required contributions for each year.

Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (STRS or PERS) must be covered by social security or an alternative plan. The District has elected to use its alternative plan. Contributions made by the District and an employee vest immediately. The District contributes 6.2 percent of an employee's gross earnings. An employee is required to contribute 6.2 percent of his or her gross earnings to the pension plan.

On Behalf Payments

The State of California makes contributions to STRS and PERS on behalf of the District. These payments consist of State General Fund contributions to STRS in the amount of \$1,753,871 (4.517 percent of salaries subject to STRS). No contributions were made for PERS for the year ended June 30, 2007. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures, however, guidance received from the California Department of Education advises local educational agencies not to record these amounts in the Annual Financial and Budget Report. These amounts have not been included in the budget amounts reported in the General Fund Budgetary Schedule. These amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2007.

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, 2007.

Operating Leases

The District has entered into various operating leases for buildings and equipment with lease terms in excess of one year. None of these agreements contain purchase options. All agreements contain a termination clause providing for cancellation after a specified number of days written notice to lessors, but it is unlikely that the District will cancel any of the agreements prior to the expiration date.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

Construction Commitments

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

CAPITAL PROJECT	Remaining Construction Commitment	Expected Date of Completion
Atwater High School Painting	\$ 24,550	August 2007
Atwater High School Carpet Replacement	24,217	September 2007
Merced High School Painting	291,073	September 2007
Merced High School Portable Site Prep	282,363	September 2007
Golden Valley High School Portable Site Prep	282,363	August 2007
Livingston High School Portable Site Prep	234,410	September 2007
Atwater High School Lawn Prep	55,616	September 2007
Livingston High School/ECEC Roof Replacement	26,191	September 2007
Merced High School Band Room	2,177	September 2007
Counseling Offices	2,800	September 2007
Merced/Golden Valley High School Ag Project	280,260	December 2007
ECEC HVAC Replacement	200,781	October 2007
Atwater High School Asbestos	4,450	September 2007
ECEC Carpet Replacement	39,722	September 2007
Bellevue Ranch	72,727,709	December 2009
Livingston High School Expansion	29,847,401	December 2010
Livingston High School Modernization Phase II	18,298,248	December 2010
Total	<u>\$ 122,624,331</u>	

NOTE 15 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWERS AUTHORITIES

The District is a member of the Self-Insured Schools of California (SISC III), the Self-Insured Schools of California (SISC II), and the Merced County Schools Insurance Group (MCSIG) public entity risk pools. The District pays an annual premium to each entity for its health, workers' compensation, and property liability coverage. The relationships between the District and pools are such that they are not component units of the District for financial reporting purposes.

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

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

The District has no appointed board members to the governing board of SISC III.

During the year ended June 30, 2007, the District made payment of \$8,505,755 to SISC III for medical, dental and vision insurance.

The District has no appointed board members to the governing board of SISC II.

During the year ended June 30, 2007, the District made payment of \$445,616 to SISC II for property and liability insurance.

The District has appointed two board members to the governing board of MCSIG.

During the year ended June 30, 2007, the District made payment of \$1,073,053 to MCSIG for workers' compensation insurance.

REQUIRED SUPPLEMENTARY INFORMATION

MERCED UNION HIGH SCHOOL DISTRICT

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

	Budgeted Amounts		Actual ¹ (GAAP Basis)	Variances -
	(GAAP Basis)			Favorable
	Original	Final		(Unfavorable) Final to Actual
REVENUES				
Revenue limit sources	\$64,658,617	\$64,664,011	\$ 66,005,259	\$ 1,341,248
Federal sources	7,319,332	8,678,068	7,170,843	(1,507,225)
Other state sources	8,755,391	13,979,398	14,570,299	590,901
Other local sources	998,374	1,555,523	1,967,331	411,808
Total Revenues	81,731,714	88,877,000	89,713,732	836,732
EXPENDITURES				
Current				
Certificated Salaries	35,485,896	39,434,057	38,926,393	507,664
Classified salaries	11,395,318	12,530,501	12,285,672	244,829
Employee benefits	16,236,023	16,951,436	16,173,242	778,194
Books and supplies	7,156,608	10,611,400	5,641,245	4,970,155
Services and operating expenditures	8,912,918	10,495,955	7,695,302	2,800,653
Other outgo	173,317	164,501	241,714	(77,213)
Capital outlay	137,982	715,590	632,964	82,626
Debt service	37,113	37,113	25,638	11,475
Total Expenditures	79,535,175	90,940,553	81,622,170	9,318,383
Excess (Deficiency) of Revenues Over Expenditures	2,196,539	(2,063,553)	8,091,562	10,155,115
Other Financing Sources (Uses):				
Transfers in	-	503,000	508,324	5,324
Transfers out	(3,830,000)	(4,985,948)	(5,004,379)	(18,431)
Net Financing Sources (Uses)	(3,830,000)	(4,482,948)	(4,496,055)	(13,107)
NET CHANGE IN FUND BALANCES	(1,633,461)	(6,546,501)	3,595,507	10,142,008
Fund Balance - Beginning	11,806,234	11,806,234	11,806,234	-
Fund Balance - Ending	\$10,172,773	\$ 5,259,733	\$ 15,401,741	\$ 10,142,008

¹ Excludes on behalf payments made to STRS by the State of California.

MERCED UNION HIGH SCHOOL DISTRICT

**SPECIAL RESERVE FUND FOR OTHER THAN CAPITAL OUTLAY
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2007**

	Budgeted Amounts (GAAP Basis)		Actual (GAAP Basis)	Variances - Favorable (Unfavorable)
	Original	Final		Final
				to Actual
REVENUES				
Other local sources	\$ 310,000	\$ 370,000	\$ 805,441	\$ 435,441
Total Revenues	<u>310,000</u>	<u>370,000</u>	<u>805,441</u>	<u>435,441</u>
EXPENDITURES				
Excess (Deficiency) of Revenues Over Expenditures	<u>310,000</u>	<u>370,000</u>	<u>805,441</u>	<u>435,441</u>
Other Financing Sources (Uses):				
Transfers in	<u>1,650,000</u>	<u>2,750,000</u>	<u>2,710,649</u>	<u>(39,351)</u>
Net Financing Sources (Uses)	<u>1,650,000</u>	<u>2,750,000</u>	<u>2,710,649</u>	<u>(39,351)</u>
NET CHANGE IN FUND BALANCES	<u>1,960,000</u>	<u>3,120,000</u>	<u>3,516,090</u>	<u>396,090</u>
Fund Balance - Beginning	<u>13,723,832</u>	<u>13,723,832</u>	<u>13,723,832</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 15,683,832</u>	<u>\$ 16,843,832</u>	<u>\$ 17,239,922</u>	<u>\$ 396,090</u>

SUPPLEMENTARY INFORMATION

MERCED UNION HIGH SCHOOL DISTRICT

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

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
Adult Education - Priority 1-3	84.002A	14508	\$ 116,511
Adult Education - Priority 5	84.002A	13978	7,875
Adult Education - English Literacy	84.002A	14109	55,475
No Child Left Behind			
Title I - Basic ¹	84.010	13797	2,853,374
Title I - Program Improvement School Assistance ¹	84.011	14417	94,047
Title I - Program Improvement Corrective Action ¹	84.012	14579	21,522
Title I - Program Improvement District Intervention ¹	84.018	14581	68,599
Title II - Teacher Quality	84.367	14341	578,265
Title II - Principal Training	84.367	14344	3,722
Title II - Enhancing Education through Technology	84.319	14334	41,273
Title III - Immigrant Education	84.365	14346	18,071
Title III - LEP	84.365	10084	170,174
Title IV- Drug Free Schools	84.186	14347	60,782
Title V - Innovative Strategies	84.298A	13340	449
Gear Up Program	84.334	10088	787,604
Literacy and School Libraries	84.364A	N/A	249,000
Advanced Placement Fee Assistance	84.330A	13917	38,790
Special Education - State Grants			
Local Assistance ¹	84.027	13379	1,751,230
Vocational Educational Grants			
Vocational & Applied Technology	84.048	13924	364,076
Postsecondary and Adult Literacy	84.048	13923	10,997
Total U.S. Department of Education			<u>7,291,836</u>
U.S. DEPARTMENT OF LABOR			
Passed through CDE:			
Workforce Investment Act	17.255	13422	<u>53,010</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through CDE:			
Child Nutrition School Programs-Lunch and Breakfast	10.556	14198	2,138,279
Child Nutrition School Programs-Family Day Care	10.558	13665	9,104
Total U.S. Department of Agriculture			<u>2,147,383</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through CDE:			
Infant & Toddler Childcare	93.575	13942	2,380
Medi-Cal	93.778	10013	17,888
Total U.S. Department of Agriculture			<u>20,268</u>
Total Federal Financial Assistance			<u>\$ 9,512,497</u>

¹ Tested as a major program

See accompanying note to supplementary information.

MERCED UNION HIGH SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE

JUNE 30, 2007

ORGANIZATION

The Merced Union High School District was established in 1915 and comprises the area of approximately 625 square miles located in Merced County. The District operates six high schools, one continuation school, and one adult school. There were no boundary changes during the year.

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Tim O'Neill	President	2009
Dave M. Olsen	Vice President	2007
Dave Honey	Clerk	2009
Ida M. Johnson	Member	2009
Robert J. Weimer	Member	2007

ADMINISTRATION

Robert H. Fore, Jr., Ph.D.	Superintendent
Diane C. Hockersmith, Ed.D	Deputy Superintendent
Yvonne Eagle	Director of Fiscal Services

See accompanying note to supplementary information.

MERCED UNION HIGH SCHOOL DISTRICT

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

	Second Period Report	Annual Report
SECONDARY		
Regular classes	9,473	9,437
Continuation education	207	222
Home and hospital	8	11
Special education	237	237
Community Day	11	12
Total Secondary	9,936	9,919
CLASSES FOR ADULTS		
Concurrently enrolled	47	43
Not concurrently enrolled	586	612
Total Classes for Adults	633	655
Grand Total	10,569	10,574
		Hours of Attendance
SUPPLEMENTAL HOURS		
K-12 core instruction		66,822
7-12 remedial instruction		269,078
Total Hours		335,900

See accompanying note to supplementary information.

MERCED UNION HIGH SCHOOL DISTRICT

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

<u>Grade Level</u>	1982-83	1986-87	2006-07	<u>Number of Days</u>		<u>Status</u>
	<u>Actual Minutes</u>	<u>Minutes Requirement</u>	<u>Actual Minutes</u>	<u>Traditional Calendar</u>	<u>Multitrack Calendar</u>	
Grades 9 - 12	61,195	64,800	64,875	180	N/A	Complied

See accompanying note to supplementary information.

MERCED UNION HIGH SCHOOL DISTRICT

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

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

See accompanying note to supplementary information.

MERCED UNION HIGH SCHOOL DISTRICT

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

	(Budget) 2008 ¹	2007 ⁴	2006 ⁴	2005 ⁴
GENERAL FUND				
Revenues	\$ 90,224,624	\$ 89,713,732	\$ 79,202,931	\$ 73,796,121
Other sources and transfers in	503,000	508,324	153,842	1,303,061
Total Revenues and Other Sources	90,727,624	90,222,056	79,356,773	75,099,182
Expenditures	88,175,971	81,622,170	72,344,159	70,795,993
Other uses and transfers out	4,729,335	5,004,379	3,805,000	2,228,810
Total Expenditures and Other Uses	92,905,306	86,626,549	76,149,159	73,024,803
INCREASE/(DECREASE) IN FUND BALANCE	\$ (2,177,682)	\$ 3,595,507	\$ 3,207,614	\$ 2,074,379
ENDING FUND BALANCE	\$ 13,224,059	\$ 15,401,741	\$ 11,806,234	\$ 8,598,622
AVAILABLE RESERVES ²	\$ 2,787,159	\$ 2,598,797	\$ 2,284,475	\$ 2,326,485
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	3.00%	3.00%	3.00%	3.19%
LONG-TERM OBLIGATIONS	Not Available	\$ 24,300,192	\$ 24,714,744	\$ 25,470,490
AVERAGE DAILY ATTENDANCE AT P-2 ³	10,014	9,936	9,750	9,502

The General Fund balance has increased by \$6,803,119 over the past two years. The fiscal year 2007-08 budget projects a decrease of \$2,177,682 (14.1 percent). For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in each of the past three years but anticipates incurring an operating deficit during the 2007-08 fiscal year. Total long-term obligations have decreased by \$1,170,298 over the past two years.

Average daily attendance has increased by 434 ADA over the past two years. Additional growth of 78 ADA is anticipated during fiscal year 2007-08.

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

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

³ Excludes Adult Education ADA.

⁴ On behalf payments have been excluded from this schedule.

See accompanying note to supplementary information.

MERCED UNION HIGH SCHOOL DISTRICT

EXCESS SICK LEAVE

JUNE 30, 2007

Section 19833.5 (a)(3) or (a)(3)(b) Disclosure

Merced Union High School District does not provide more than 12 sick leave days in a school year to any CalSTRS member.

See accompanying note to supplementary information.

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION

JUNE 30, 2007

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

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

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

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

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

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

Excess Sick Leave

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

SUPPLEMENTARY INFORMATION - UNAUDITED

MERCED UNION HIGH SCHOOL DISTRICT

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

	<u>Adult Fund</u>	<u>Child Development Fund</u>	<u>Cafeteria Fund</u>	<u>Deferred Maintenance Fund</u>
ASSETS				
Deposits and investments	\$ 687,032	\$ 345,489	\$ 145,259	\$ 1,345,206
Receivables	326,607	1,535	378,410	-
Due from other funds	-	-	35,957	-
Stores inventories	-	-	112,889	-
Total Assets	<u>\$ 1,013,639</u>	<u>\$ 347,024</u>	<u>\$ 672,515</u>	<u>\$ 1,345,206</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 18,489	\$ 1,056	\$ 419,023	\$ 74,515
Due to other funds	86,472	21,913	87,057	-
Deferred revenue	54,042	907	-	-
Total Liabilities	<u>159,003</u>	<u>23,876</u>	<u>506,080</u>	<u>74,515</u>
Fund Balances:				
Reserved for:				
Revolving cash	-	-	442	-
Stores inventories	-	-	112,889	-
Unreserved:				
Designated	-	-	-	1,270,691
Undesignated, reported in:				
Special revenue funds	854,636	323,148	53,104	-
Debt service funds	-	-	-	-
Total Fund Balances	<u>854,636</u>	<u>323,148</u>	<u>166,435</u>	<u>1,270,691</u>
Total Liabilities and Fund Balances	<u>\$ 1,013,639</u>	<u>\$ 347,024</u>	<u>\$ 672,515</u>	<u>\$ 1,345,206</u>

See accompanying note to supplementary information - unaudited.

Pupil Transportation Fund	Building Fund	County School Facilities Fund	Special Reserve Capital Fund	Bond Interest and Redemption Fund	Tax Override Fund	Total Non-Major Governmental Funds
\$ 169,281	\$ 160,569	\$1,277,971	\$3,776,297	\$ 2,488,774	\$ 69,398	\$ 10,465,276
-	-	-	-	-	-	706,552
-	-	-	97,394	-	-	133,351
-	-	-	-	-	-	112,889
<u>\$ 169,281</u>	<u>\$ 160,569</u>	<u>\$1,277,971</u>	<u>\$3,873,691</u>	<u>\$ 2,488,774</u>	<u>\$ 69,398</u>	<u>\$ 11,418,068</u>
\$ -	\$ -	\$ 106,244	\$ 231,979	\$ -	\$ -	\$ 851,306
-	-	-	-	-	-	195,442
-	-	-	-	-	-	54,949
<u>-</u>	<u>-</u>	<u>106,244</u>	<u>231,979</u>	<u>-</u>	<u>-</u>	<u>1,101,697</u>
-	-	-	-	-	-	442
-	-	-	-	-	-	112,889
169,281	160,569	1,171,727	3,641,712	-	-	6,413,980
-	-	-	-	-	-	1,230,888
-	-	-	-	2,488,774	69,398	2,558,172
<u>169,281</u>	<u>160,569</u>	<u>1,171,727</u>	<u>3,641,712</u>	<u>2,488,774</u>	<u>69,398</u>	<u>10,316,371</u>
<u>\$ 169,281</u>	<u>\$ 160,569</u>	<u>\$1,277,971</u>	<u>\$3,873,691</u>	<u>\$ 2,488,774</u>	<u>\$ 69,398</u>	<u>\$ 11,418,068</u>

MERCED UNION HIGH SCHOOL DISTRICT

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

	Adult Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
REVENUES				
Revenue limit sources	\$ 1,961,021	\$ -	\$ -	\$ -
Federal sources	191,891	11,484	2,138,279	-
Other state sources	-	457,930	193,880	407,367
Other local sources	364,707	26,212	1,036,142	54,430
Total Revenues	2,517,619	495,626	3,368,301	461,797
EXPENDITURES				
Current				
Instruction	1,201,414	218,724	-	-
Instruction-related activities:				
Supervision of instruction	108,671	-	-	-
School site administration	520,208	677	-	-
Pupil Services:				
Home-to school transportation	-	-	-	-
Food services	-	12,595	3,184,512	-
All other pupil services	9,370	52,136	-	-
General administration:				
All other general administration	82,431	17,742	85,893	-
Plant services	115,067	260	10,912	188,916
Facility acquisition and construction	-	-	-	445,961
Debt service				
Principal	-	-	-	-
Interest and other	-	-	-	-
Total Expenditures	2,037,161	302,134	3,281,317	634,877
Excess (Deficiency) of Revenues Over Expenditures	480,458	193,492	86,984	(173,080)
Other Financing Sources (Uses):				
Transfers in	-	-	505,000	335,948
Transfers out	-	-	(508,324)	-
Net Financing Sources (Uses)	-	-	(3,324)	335,948
NET CHANGE IN FUND BALANCES	480,458	193,492	83,660	162,868
Fund Balance - Beginning	374,178	129,656	82,775	1,107,823
Fund Balance - Ending	\$ 854,636	\$ 323,148	\$ 166,435	\$ 1,270,691

See accompanying note to supplementary information - unaudited.

Pupil Transpiration Fund	Building Fund	County School Facilities Fund	Special Reserve Capital Fund	Bond Interest and Redemption Fund	Tax Override Fund	Total Non-Major Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,961,021
-	-	-	-	-	-	2,341,654
414,940	-	1,402,586	-	-	-	2,876,703
6,459	6,918	72,053	182,323	1,676,576	3,228	3,429,048
421,399	6,918	1,474,639	182,323	1,676,576	3,228	10,608,426
-	-	-	-	-	-	1,420,138
-	-	-	-	-	-	108,671
-	-	-	-	-	-	520,885
822,017	-	-	-	-	-	822,017
-	-	-	-	-	-	3,197,107
-	-	-	-	-	-	61,506
-	-	-	-	-	-	186,066
-	-	42,410	-	-	-	357,565
-	-	757,437	416,322	-	-	1,619,720
-	-	-	-	1,205,000	2,577	1,207,577
-	-	-	-	478,234	-	478,234
822,017	-	799,847	416,322	1,683,234	2,577	9,979,486
(400,618)	6,918	674,792	(233,999)	(6,658)	651	628,940
400,000	-	-	2,431,968	-	-	3,672,916
-	-	(1,379,186)	-	-	-	(1,887,510)
400,000	-	(1,379,186)	2,431,968	-	-	1,785,406
(618)	6,918	(704,394)	2,197,969	(6,658)	651	2,414,346
169,899	153,651	1,876,121	1,443,743	2,495,432	68,747	7,902,025
\$ 169,281	\$ 160,569	\$ 1,171,727	\$ 3,641,712	\$ 2,488,774	\$ 69,398	\$ 10,316,371

MERCED UNION HIGH SCHOOL DISTRICT

**PRIVATE-PURPOSE SCHOLARSHIP TRUST FUNDS
COMBINING STATEMENT OF NET ASSETS - UNAUDITED
JUNE 30, 2007**

ASSETS	<u>Scholarships</u>
Deposits and investments	\$ 1,278,633
Total Cash and Assets	<u>\$ 1,278,633</u>
LIABILITIES	
NET ASSETS	
Reserved for scholarships	
Non-Expendable:	
Acker Scholarship	27,186
Alvernaz Scholarship	21,210
Beal Scholarship	10,833
Callister Scholarship	3,232
Cavaiani Scholarship	10,893
Chamberlain Scholarship	14,360
Landram Scholarship	27,811
Montano Scholarship	8,047
Mudd Scholarship	22,551
Okuda Scholarship	11,125
Roberts Scholarship	8,524
Roveto Scholarship	172,708
Weimer Scholarship	505
Expendable:	
AARP Scholarship	7,803
Barnes Scholarship	13,402
Bloss Scholarship	547,550
Broussard Scholarship	772
Brown Scholarship	33,775
Church Scholarship	12,256
Crookham Scholarship	3,280
Dallas Scholarship	20,709
Elam Scholarship	429
Fancher Scholarship	65,426
Fite Scholarship	1,283
Granado Scholarship	7,371
Jackson Scholarship	3,095
Joyner Scholarship	109
Kiwanis Scholarship	858
Lau Scholarship	7,839
Lockwood Scholarship	8,983
Martinelli Scholarship	522
McCollum Scholarship	3,170
McPherson-Hanson Scholarship	127
Mitchell Scholarship	343
Moberly Scholarship	5,818
Newhall Scholarship	31,876
Prince Scholarship	142,250
Purganan Scholarship	1,925
Rohm Scholarship	54
Sodexho Scholarship	764
Souza Scholarship	11,856
Yagi Scholarship	6,003
Total Net Assets Reserved for Scholarships	<u>\$ 1,278,633</u>

See accompanying note to supplementary information - unaudited.

MERCED UNION HIGH SCHOOL DISTRICT

**PRIVATE-PURPOSE SCHOLARSHIP TRUST FUNDS
COMBINING STATEMENT OF CHANGES IN NET ASSETS - UNAUDITED
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>Acker Scholarship</u>	<u>Alvernaz Scholarship</u>	<u>Beal Scholarship</u>	<u>Callister Scholarship</u>	<u>Cavaiani Scholarship</u>
ADDITIONS					
Trust income	\$ 9,125	\$ -	\$ -	\$ -	\$ -
Interest income	920	1,043	511	138	363
Total Additions	<u>10,045</u>	<u>1,043</u>	<u>511</u>	<u>138</u>	<u>363</u>
DEDUCTIONS					
Scholarships awarded	1,125	350	-	-	-
Total Deductions	<u>1,125</u>	<u>350</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in Net Assets	8,920	693	511	138	363
Net Assets - Beginning	<u>18,266</u>	<u>20,517</u>	<u>10,322</u>	<u>3,094</u>	<u>10,530</u>
Net Assets - Ending	<u>\$ 27,186</u>	<u>\$ 21,210</u>	<u>\$ 10,833</u>	<u>\$ 3,232</u>	<u>\$ 10,893</u>

See accompanying note to supplementary information - unaudited.

<u>Chamberlain Scholarship</u>	<u>Landram Scholarship</u>	<u>Montano Scholarship</u>	<u>Mudd Scholarship</u>	<u>Okuda Scholarship</u>	<u>Roberts Scholarship</u>	<u>Roveto Scholarship</u>
\$ 4,200	\$ -	\$ 800	\$ -	\$ -	\$ -	\$ 23,792
363	1,390	341	1,116	535	353	5,446
<u>4,563</u>	<u>1,390</u>	<u>1,141</u>	<u>1,116</u>	<u>535</u>	<u>353</u>	<u>29,238</u>
4,625	250	600	-	200	-	22,000
<u>4,625</u>	<u>250</u>	<u>600</u>	<u>-</u>	<u>200</u>	<u>-</u>	<u>22,000</u>
(62)	1,140	541	1,116	335	353	7,238
<u>14,422</u>	<u>26,671</u>	<u>7,506</u>	<u>21,435</u>	<u>10,790</u>	<u>8,171</u>	<u>165,470</u>
<u>\$ 14,360</u>	<u>\$ 27,811</u>	<u>\$ 8,047</u>	<u>\$ 22,551</u>	<u>\$ 11,125</u>	<u>\$ 8,524</u>	<u>\$ 172,708</u>

MERCED UNION HIGH SCHOOL DISTRICT

**PRIVATE-PURPOSE SCHOLARSHIP TRUST FUNDS
COMBINING STATEMENT OF CHANGES IN NET ASSETS - UNAUDITED
FOR THE YEAR ENDED JUNE 30, 2007**

	Weimer Scholarship	Total Non-Expendable Scholarships
ADDITIONS		
Trust income	\$ 500	\$ 38,417
Interest income	5	12,524
Total Additions	<u>505</u>	<u>50,941</u>
DEDUCTIONS		
Scholarships awarded	-	29,150
Total Deductions	<u>-</u>	<u>29,150</u>
Change in Net Assets	505	21,791
Net Assets - Beginning	<u>-</u>	<u>317,194</u>
Net Assets - Ending	<u>\$ 505</u>	<u>\$ 338,985</u>

See accompanying note to supplementary information - unaudited.

MERCED UNION HIGH SCHOOL DISTRICT

**PRIVATE-PURPOSE SCHOLARSHIP TRUST FUNDS
 COMBINING STATEMENT OF CHANGES IN NET ASSETS - UNAUDITED
 FOR THE YEAR ENDED JUNE 30, 2007**

	AARP Scholarship	Barnes Scholarship	Bloss Scholarship	Broussard Scholarship	Brown Scholarship
ADDITIONS					
Trust income	\$ 135	\$ 499	\$ 345,552	\$ 767	\$ 28,428
Interest income	366	1,598	12,344	5	370
Total Additions	<u>501</u>	<u>2,097</u>	<u>357,896</u>	<u>772</u>	<u>28,798</u>
DEDUCTIONS					
Scholarships awarded	1,000	2,000	333,125	-	4,500
Total Deductions	<u>1,000</u>	<u>2,000</u>	<u>333,125</u>	<u>-</u>	<u>4,500</u>
Change in Net Assets	(499)	97	24,771	772	24,298
Net Assets - Beginning	<u>8,302</u>	<u>13,305</u>	<u>522,779</u>	<u>-</u>	<u>9,477</u>
Net Assets - Ending	<u>\$ 7,803</u>	<u>\$ 13,402</u>	<u>\$ 547,550</u>	<u>\$ 772</u>	<u>\$ 33,775</u>

See accompanying note to supplementary information - unaudited.

<u>Church Scholarship</u>	<u>Crookham Scholarship</u>	<u>Dallas Scholarship</u>	<u>Elam Scholarship</u>	<u>Fancher Scholarship</u>	<u>Fite Scholarship</u>	<u>Granado Scholarship</u>
\$ -	\$ 205	\$ -	\$ -	\$ 36,102	\$ 175	\$ 10,100
595	143	1,022	11	1,577	37	271
<u>595</u>	<u>348</u>	<u>1,022</u>	<u>11</u>	<u>37,679</u>	<u>212</u>	<u>10,371</u>
500	-	2,000	350	55,000	500	3,000
<u>500</u>	<u>-</u>	<u>2,000</u>	<u>350</u>	<u>55,000</u>	<u>500</u>	<u>3,000</u>
95	348	(978)	(339)	(17,321)	(288)	7,371
<u>12,161</u>	<u>2,932</u>	<u>21,687</u>	<u>768</u>	<u>82,747</u>	<u>1,571</u>	<u>-</u>
<u>\$ 12,256</u>	<u>\$ 3,280</u>	<u>\$ 20,709</u>	<u>\$ 429</u>	<u>\$ 65,426</u>	<u>\$ 1,283</u>	<u>\$ 7,371</u>

MERCED UNION HIGH SCHOOL DISTRICT

**PRIVATE-PURPOSE SCHOLARSHIP TRUST FUNDS
COMBINING STATEMENT OF CHANGES IN NET ASSETS - UNAUDITED
FOR THE YEAR ENDED JUNE 30, 2007**

	Jackson Scholarship	Joyner Scholarship	Kiwanis Scholarship	Lau Scholarship	Lockwood Scholarship
ADDITIONS					
Trust income	\$ -	\$ -	\$ -	\$ -	\$ -
Interest income	164	-	26	237	427
Total Additions	<u>164</u>	<u>-</u>	<u>26</u>	<u>237</u>	<u>427</u>
DEDUCTIONS					
Scholarships awarded	600	-	300	1,000	-
Total Deductions	<u>600</u>	<u>-</u>	<u>300</u>	<u>1,000</u>	<u>-</u>
Change in Net Assets	(436)	-	(274)	(763)	427
Net Assets - Beginning	<u>3,531</u>	<u>109</u>	<u>1,132</u>	<u>8,602</u>	<u>8,556</u>
Net Assets - Ending	<u>\$ 3,095</u>	<u>\$ 109</u>	<u>\$ 858</u>	<u>\$ 7,839</u>	<u>\$ 8,983</u>

See accompanying note to supplementary information - unaudited.

<u>Martinelli Scholarship</u>	<u>McCollum Scholarship</u>	<u>McPherson- Hanson Scholarship</u>	<u>Mitchell Scholarship</u>	<u>Moberly Scholarship</u>	<u>Newhall Scholarship</u>	<u>Prince Scholarship</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 250
17	104	4	8	288	1,504	5,342
<u>17</u>	<u>104</u>	<u>4</u>	<u>8</u>	<u>288</u>	<u>1,504</u>	<u>5,592</u>
250	-	-	100	200	1,250	12,500
<u>250</u>	<u>-</u>	<u>-</u>	<u>100</u>	<u>200</u>	<u>1,250</u>	<u>12,500</u>
(233)	104	4	(92)	88	254	(6,908)
<u>755</u>	<u>3,066</u>	<u>123</u>	<u>435</u>	<u>5,730</u>	<u>31,622</u>	<u>149,158</u>
<u>\$ 522</u>	<u>\$ 3,170</u>	<u>\$ 127</u>	<u>\$ 343</u>	<u>\$ 5,818</u>	<u>\$ 31,876</u>	<u>\$ 142,250</u>

MERCED UNION HIGH SCHOOL DISTRICT

**PRIVATE-PURPOSE SCHOLARSHIP TRUST FUNDS
COMBINING STATEMENT OF CHANGES IN NET ASSETS - UNAUDITED
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>Purganan Scholarship</u>	<u>Rohm Scholarship</u>	<u>Sodexho Scholarship</u>	<u>Souza Scholarship</u>	<u>Yagi Scholarship</u>
ADDITIONS					
Trust income	\$ -	\$ -	\$ -	\$ -	\$ 6,000
Interest income	56	2	4	571	3
Total Additions	<u>56</u>	<u>2</u>	<u>4</u>	<u>571</u>	<u>6,003</u>
DEDUCTIONS					
Scholarships awarded	250	-	-	125	-
Total Deductions	<u>250</u>	<u>-</u>	<u>-</u>	<u>125</u>	<u>-</u>
Change in Net Assets	(194)	2	4	446	6,003
Net Assets - Beginning	<u>2,119</u>	<u>52</u>	<u>760</u>	<u>11,410</u>	<u>-</u>
Net Assets - Ending	<u>\$ 1,925</u>	<u>\$ 54</u>	<u>\$ 764</u>	<u>\$ 11,856</u>	<u>\$ 6,003</u>

See accompanying note to supplementary information - unaudited.

<u>Total Expendable Scholarships</u>	<u>Total (Memorandum Only)</u>
\$ 428,213	\$ 466,630
<u>27,096</u>	<u>39,620</u>
<u>455,309</u>	<u>506,250</u>
 418,550	 447,700
<u>418,550</u>	<u>447,700</u>
 36,759	 58,550
<u>902,889</u>	<u>1,220,083</u>
<u>\$ 939,648</u>	<u>\$ 1,278,633</u>

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION - UNAUDITED JUNE 30, 2007

NOTE 1 - PURPOSE OF SCHEDULES

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

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

Private Purpose Scholarship Trust Funds – Combining Statement of Net Assets and Combining Statement of Changes in Net Assets - Unaudited

These statements are included to provide additional information regarding the individual scholarship trust funds. Following is a description of the purpose and requirements for each of the scholarships.

Jim Acker Memorial Scholarship

This scholarship has been established in honor of Jim Acker who graduated from Merced High School in 1971, by the Jim Acker Memorial Scholarship Committee, to provide a scholarship for graduating seniors from Merced High School attending a two or four year college. Recipient of this scholarship will be selected by the Jim Acker Memorial Scholarship Committee based on citizenship, GPA of 3.0 or higher and participating in athletics.

John L. Alvernaz, Jr. Scholarship

The scholarship is established from the Estate of John L. Alvernaz, Jr. to be awarded to students from Merced Union High School District. No other criteria has been specified for determining eligibility for this scholarship.

Steven O. Beal Memorial Scholarship

This scholarship is established in the memory of Steven O. Beal, a former teacher of Industrial Arts in the Merced Union High School District, for eligible Industrial Arts Drafting students planning to attend a two or four-year accredited college or university. If no Industrial Arts Drafting students apply, the scholarship may be granted to any other deserving Industrial Arts student. The student must have a cumulative GPA of no less than 2.75 for the first seven semesters of high school. The awards are to be in increments of \$500 from any amount over the \$10,000 principle. This scholarship is non-renewable.

Eldon J. Callister Memorial Scholarship

This scholarship is established in honor of Eldon J. Callister to provide a scholarship each year to a student of Merced Union High School District who enrolls as a full time student at either Brigham Young University or Utah State University. An award is given annually if a graduating senior qualifies.

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION - UNAUDITED JUNE 30, 2007

Ugo Cavaiani Scholarship

This scholarship has been set up per the request of Ugo Cavaiani to award scholarships to Livingston High School graduates aspiring to be nurses.

Chamberlain Scholarship

This scholarship was established by Naomi R. Chamberlain to provide annual scholarships to worthy graduates of Merced High School District. The following requirements are to be met by the District in managing the Chamberlain Scholarship:

- The principal shall remain intact in the Trust and the income only would be distributed to worthy students.
- Scholarships are to be awarded once per year in early May or in the spring semester.
- The number of scholarships is dependent upon the amount of interest or income generated from the fund.
- Approximately one-half of the scholarships are to be awarded to students whose goal is to attend a two-year junior or community college and the remaining awarded to students whose goal is to attend a four-year college.
- Scholarships are to be awarded to students with a 3.0 GPA or better during their attendance at Merced High School.
- Consideration should be given to provide for automatic renewal for any student in continuous enrollment, up to four years at any college or university of his or her choice, as long as the student maintains a 3.0 or higher GPA.

Hugh K. Landram Memorial Scholarship

This scholarship fund is established in honor of Hugh K. Landram to provide for scholarships to be awarded to deserving students for their future education in an accredited college or university in the State of California.

John P. Montano Memorial Scholarship

This Scholarship is established in honor of John P. Montano, a former Physical Education teacher and coach in the Merced Union High School District. It provides scholarships to eligible students who competed in a varsity sport for a minimum of one season and are planning to attend a two- or four-year college or an accredited vocational school. The student must have a cumulative GPA of no less than 2.5 for the first seven semesters of high school. The awards are to be in increments of \$600 from any amount over the \$3,255 principal. This scholarship is non-renewable.

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION - UNAUDITED JUNE 30, 2007

Jay Leroy Mudd Scholarship

This scholarship is established from the Estate of Jay Leroy Mudd. The corpus shall not be impaired, but the interest shall be paid, by way of scholarships, to students from Merced Union High School for the purpose of obtaining a college education. A board consisting of the President of Merced City Chamber of Commerce, the President of Merced Rotary club, the Senior Warden of F. & A.M. Lodge #99 of Merced, and the Master of F.& A.M. Lodge #749 of Merced shall have the exclusive right to select the recipients.

Okuda Memorial Scholarship

This scholarship has been established by Franklin Okuda in memory of his son Calvin Okuda. The scholarship has a balance of over \$10,000. This is a perpetual scholarship with only the interest being awarded in the form of scholarships. The interest earned shall be split equally for two scholarships, to one male and one female graduate from Livingston High School that meet the following criteria.

- Scholarships are to be awarded to students with a 2.0 GPA or higher.
- Scholarships are to be awarded to students who are enrolled at a vocational school, community college, state college, or university.
- Scholarships are to be awarded to students who otherwise would not receive an award.

Donna Roberts Scholarship

This scholarship has been set up per the request of Eugene E. Roberts to provide a scholarship each year for a graduating senior of Yosemite High School intending to enroll in a community college the subsequent fall semester. Recipient of this scholarship shall be selected by Mr. Ron DeWong or his successor under criteria established by Mr. Eugene E. Roberts.

Rebecca Starr Roveto Scholarship

This scholarship is established to provide scholarships for graduating seniors from Atwater High School or any new high school serving Atwater students who plan to attend an accredited four year college or university in increments of \$1,000 beginning in 1998. The awards to be given will be selected by the scholarship committee designated by the Merced Union High School District to applicants who have a minimum of 3.3 GPA (4.0 scale).

Walter Weimer Family/Livingston Rotary International Scholarship

This scholarship has been established in honor of Walter Weimer, per the request of the Weimer Family, to provide a scholarship to a Livingston High School senior. Applicant to meet the following criteria: strong math and science or agricultural science, two or four year college (UC Merced preferred but no required), well-rounded student who participated in activities. Livingston High School site committee selects recipient. Award to be \$500 (non-renewable).

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION - UNAUDITED JUNE 30, 2007

AARP Scholarship

This scholarship was established by the Atwater AARP Chapter #2194 in the amount of \$9,000 to be distributed at the rate of \$1,000 per year for four scholarships, \$250 each, until the \$9,000 with its earnings has been depleted. The scholarships are to be awarded to two academic majors and two vocational majors for studies accordingly in college. The Atwater High School Scholarship Committee selects several possible academic and vocational recipients from the pool of Atwater High School Scholarship applicants and refers the names to AARP Chapter #2194 for screening and selection.

Richard Barnes Memorial Scholarship

This scholarship was established by JoAnna Browning in the memory of Richard Barnes to provide scholarships for eligible student athletes of Atwater High School who graduate with a minimum 3.0 GPA. There will be one award recipient each year receiving \$500 if attending a two year college or \$1,000 if attending a four year college.

Christine Bloss Memorial Scholarship

This scholarship is established in honor of Christine Bloss to provide scholarships for graduating seniors. It is awarded annually to students who attend a two-year or four-year college and are graduates of Merced High School, Atwater, Livingston, Yosemite, or the Adult School. The total amount awarded annually is determined by the Board of Trustees based on earnings from trust account and time certificates. Each campus receives a stipulated amount based on the number of graduates on a percentage basis. Each school determines the number of recipients and the amount of each award. Students must attend an accredited California college or university.

Kiara Broussard Culinary Arts Scholarship

This scholarship has been established in honor of Kiara Broussard, per the request of Jennifer Broussard, to provide a scholarship for a graduating senior of Golden Valley High School or Buhach Colony/Merced High School if Golden Valley has no candidates. Applicant majoring in Culinary Arts (San Francisco Culinary Academy preferred). Recipient will be selected by family of Kiara Broussard. No required activities, minimum GPA 3.0, \$500 award (amount may change).

Brown Memorial Scholarship

This scholarship was established to provide scholarships to Merced and Golden Valley High School graduating seniors planning to attend a two or four-year accredited college or university in increments of \$1,000 per year for four years or completion of undergraduate degree. Scholarships will be awarded to students with a 3.3 cumulative GPA. College students must have a cumulative 2.5 GPA to remain eligible.

Church Scholarship

This scholarship has been established by Mr. and Mrs. Dan Church. The Scholarship Fund has accumulated approximately \$10,000. The interest accrued each year will be awarded to a graduating Golden Valley High School male or female student athlete who has participated in at least one varsity sport and plans to attend Merced College.

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION - UNAUDITED JUNE 30, 2007

Sybil Nye Crookham Memorial Scholarship

This scholarship is established in honor of Sybil Nye Crookham. The scholarship will be awarded to seniors at either Atwater or Buhach Colony High Schools with a GPA of at least 3.0. The \$250 scholarship will be awarded to one senior at each high school.

Dallas Athletic Scholarship (Heart Award)

This scholarship has been established at Atwater and Buhach Colony High Schools in the amounts of \$12,500 each. The \$1,000 scholarship will be awarded to a female athlete at each high school with a minimum GPA of 2.5 who has participated in athletics for a minimum of two years who will be enrolled in a two or four year college or vocational school.

Bill Elam Memorial Scholarship

This scholarship has been established in honor of Bill Elam by the Livingston Rotary Club and friends of Bill Elam for the purpose of awarding an annual scholarship to a graduating senior from Livingston High School. No other criteria has been specified for the eligibility requirements. The recipient of this scholarship will be selected by Earlane Elam and the Livingston High School Scholarship Committee.

Fred B. Fancher Scholarship

This scholarship is established in honor of Fred B. Fancher. Scholarships are granted annually to qualified graduates of the Merced Union High School District who have demonstrated an interest in the broad field of agriculture and who wish to pursue a course of study, directly or indirectly, related to the field of agriculture. Students must attend either a two-year or a four-year accredited California university or college. The amount awarded each year depends upon the availability of funds. Applicants may reapply each year and receive a scholarship for up to a maximum of four years.

Carter Fite Memorial Scholarship

As of our audit date this scholarship did not have any restrictions or guidelines as to its use.

Mario Granado Memorial Scholarship

This scholarship has been established in honor of Mario Granado, a former employee of Merced Union High School District, per the request of Cynthia Granado, to provide non-renewable scholarships to Livingston High School, Atwater High School, Buhach Colony High School, Merced High School and Golden Valley High School seniors with 2.0+ GPA. Applicants to meet any of the following criteria: pursuing a vocational program (priority), overcome obstacles or shown improvement, come from large family, participate in baseball or softball, complete 200+ hours of community service or plays a musical instrument. Awards to be \$1,000 at each campus.

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION - UNAUDITED JUNE 30, 2007

Betty B. Jackson Scholarship

This scholarship has been established in honor of Betty B. Jackson, per the request of Lloyd Jackson, to provide a scholarship for the first year of college for a graduating senior of Merced High School enrolling in a junior college. Recipient of this scholarship shall be selected by the Merced High School Scholarship Committee under the criteria established by Mr. Lloyd Jackson as follows:

- Financial need as determined by the Scholarship Committee.
- Minimum GPA of 2.0 based on last 5 semesters of high school grades.
- Selection cannot be made until after the Bloss and Smith Scholarships are selected.

Joyner Scholarship

This scholarship was established by the California Association of School Business Officials to be given in the name of Lydia L. Lobdell, in the amount of \$500 each year for ten years. The recipient will be selected from one high school in the District on a rotating basis. The selection will be made by a committee of business teachers at the site. The scholarship may be awarded without qualification to any graduate in need of assistance to continue their education.

Livingston Kiwanis Club Scholarship

This scholarship has been established by the Kiwanis Club of Livingston-Delhi for the purposes of awarding a yearly academic scholarship to a Livingston High School Student, beginning in 1993. The criteria is to be established by the Livingston High School Scholarship Committee.

Karina Lau Memorial Scholarship

This scholarship is established in honor of Karina Lau. The scholarship is to be awarded to a senior at Livingston High School who was involved in the music or theater program and will enroll in a two or four year college with a music or theater related degree. The scholarship will be \$1,000 a year for up to four years as long as the student continues with a music or theater major.

Lester L. Lockwood Memorial Scholarship

This scholarship has been established in honor of Lester L. Lockwood with the approval of Janelle Lockwood. The Lester Lockwood Memorial Scholarship will be awarded each year to a graduating senior from Yosemite High School who plans to continue his/her education at Merced College, or the previous year's recipient who is currently enrolled at Merced College and has reapplied for the scholarship. The scholarship may be renewed one time only in the manner described above. A current college student who is reapplying will be given precedence. In the event there is no reapplication, a graduating senior from Yosemite High School will be chosen by the administration and staff at Yosemite High School.

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION - UNAUDITED

JUNE 30, 2007

Angelo Martinelli Memorial Scholarship

This scholarship is established in honor of Angelo Martinelli to provide scholarships to eligible Merced High School graduates. Scholarships in the amount of \$250 will be awarded to students who have received a cumulative GPA of at least 2.75 in high school, the student may attend an accredited two-year, four-year, or a vocational school, and the student will be approved by the Martinelli family. This scholarship is non-renewable.

Karen McCollum Memorial Scholarship

This scholarship was established in honor of Karen McCollum to provide a scholarship to an eligible student who attended the GED program at the Merced Adult School and is enrolling with a GPA of 2.0 or higher and at least six or more units of work at Merced Community College. The \$500 scholarship will be disbursed in two separate payments annually (August and December).

Lucy McPherson-Hanson Memorial Scholarship

This scholarship was established to provide annual scholarships preferably to an African American student, or other minority student, graduating from Merced High School with a minimum grade point average of 2.5. This scholarship is non-renewable.

Herbert Mitchell Memorial Scholarship

This scholarship has been established in honor of Herbert Mitchell by his widow, Mrs. Winnie Mitchell, to provide a \$200 scholarship to a deserving graduate of Merced High School. The recipient of this scholarship shall be selected by the Merced High School Scholarship Committee under the criteria established by Mrs. Winnie Mitchell as follows:

- Financial need as determined by the Scholarship Committee.
- Must be a business student.
- Must be enrolling in a local community college.
- No minimum GPA requirements.

Sanford Moberly Memorial Scholarship

This scholarship is established in memory of Sanford Moberly, an art teacher at Livingston High School. Each year an art student, selected by the Livingston High School Art Department, receives a \$200 award from this scholarship.

Henry Mayo Newhall Scholarship

This scholarship was established by a gift from the Henry Mayo Foundation. A scholarship in the amount of \$8,000 is awarded to the outstanding graduate of Merced High School who will attend a four-year college. Applicant selection criteria is the same as for the Bloss Scholarship.

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION - UNAUDITED JUNE 30, 2007

Clarence Earl Prince Scholarship

This scholarship is established from the Estate of Clarence Earl Prince to provide for scholarships to be awarded to deserving students of Merced Union High School who intend to attend college during the next academic year immediately following high school graduation. The Superintendent of the Merced Union High School District, together with the Board of Directors of Merced Rotary Club shall choose applicants and set the standards by which the applicants will be chosen. The criteria can be changed from one year to the next.

Anastacia Purganan Memorial Scholarship

This scholarship has been established in honor of Anastacia Purganan to provide scholarships to eligible Livingston High School graduates, who intend to attend Merced College for two years on a full time basis in pursuing a career as a teacher or vocational program. Two scholarships, in the amount of \$1,000 each, will be awarded to approved students with a cumulative GPA between 2.0 to 3.0 in high school.

Ryan M. Rohm Memorial Scholarship

This scholarship is established in honor of Ryan Rohm to provide scholarships to eligible Golden Valley High School graduates. Three scholarships, in the amount of \$1,000 (\$500 per year for two years), will be awarded to approved students, to be eligible a student must have received a cumulative GPA of at least 3.0 in high school. This scholarship is non-renewable.

Sodexo Scholarship

Sodexo School Services has established this scholarship which will total two \$500 scholarships a year for students wishing to continue their education beyond high school in a vocational area. The scholarship will be rotated between all District high schools beginning with Buhach Colony and Golden Valley. The scholarship will be awarded to one student at each of the two high schools with at least a 2.5 GPA.

Crystal Souza Memorial Scholarship

This scholarship is established in honor of Crystal Souza. The scholarship is to be awarded to seniors at Livingston High School and will total \$250 a year for two students. Each \$250 scholarship will be awarded to one agriculture major and one nursing major. The students must be attending Merced College.

George Yagi Memorial Scholarship

This scholarship has been established in honor of George Yagi, per the request of Floy Yagi, to provide a scholarship to a Livingston High School senior who intends to attend a two or four year college. Applicant to meet the following criteria: major in agriculture or related field, participation in FFA, minimum GPA of 3.0. Livingston High School site committee selects recipient. Award to be \$1000 for a four year college or \$500 for a two year college.

INDEPENDENT AUDITORS' REPORTS



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

Governing Board
Merced Union High School District
Merced, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Merced Union High School District as of and for the year ended June 30, 2007, which collectively comprise Merced Union High School District's basic financial statements and have issued our report thereon dated September 27, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of Merced Union High School District in a separate letter dated September 27, 2007.

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, and Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Vavrinek, Irine, Day & Co., LLP

Fresno, California
September 27, 2007



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

Governing Board
Merced Union High School District
Merced, California

Compliance

We have audited the compliance of Merced Union High School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2007. Merced Union High 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 Merced Union High School District's management. Our responsibility is to express an opinion on Merced Union High 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 Merced Union High 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 Merced Union High School District's compliance with those requirements.

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

Internal Control Over Compliance

The management of Merced Union High 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 Merced Union High School District's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Merced Union High School District's internal control over compliance.

A *control deficiency* in a district's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

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

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

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, and Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Vaurinek, Urine, Day & Co, LLP

Fresno, California
September 27, 2007



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Governing Board
 Merced Union High School District
 Merced, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Merced Union High School District as of and for the year ended June 30, 2007, and have issued our report thereon dated September 27, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2006-07*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Attendance Accounting:		
Attendance reporting	8	Yes
Kindergarten continuance	3	Not Applicable
Independent study	23	Yes
Continuation education	10	Yes
Adult education	9	Yes
Regional occupational centers and programs	6	Not Applicable
Instructional Time:		
School districts	6	Yes
County offices of education	3	Not Applicable
Community day schools	9	No (see below)
Morgan-Hart Class Size Reduction	7	Yes
Instructional Materials:		
General requirements	12	Yes
K-8 only	1	Not Applicable
9-12 only	1	Yes
Ratios of Administrative Employees to Teachers	1	Yes

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Early retirement incentive	4	Not Applicable
Gann limit calculation	1	Yes
School Construction Funds:		
School district bonds	3	No (see below)
State school facilities funds	1	Yes
Alternative pension plans	2	Not Applicable
Excess sick leave	2	Yes
Notice of right to elect California State Teachers Retirement System (CalSTRS) membership	1	Yes
Proposition 20 Lottery Funds (Cardenas Textbook Act of 2000)	2	Yes
State Lottery Funds (California State Lottery Act of 1984)	2	Yes
California School Age Families Education (Cal-SAFE) Program	3	Not Applicable
School Accountability Report Card	3	Yes
Class Size Reduction Program (including in Charter Schools):		
General requirements	7	Not Applicable
Option one classes	3	Not Applicable
Option two classes	4	Not Applicable
District or charter schools with only one school serving K-3	4	Not Applicable
Charter Schools:		
Contemporaneous records of attendance	1	Not Applicable
Mode of instruction	1	Not Applicable
Non classroom-based instruction/independent study	15	Not Applicable
Determination of funding for non classroom-based instruction	3	Not Applicable
Annual instruction minutes classroom based	3	Not Applicable

We did not perform testing for community day school because the ADA was under the level that requires testing. Additionally, we did not perform testing for school district bonds because there were no expenditures from the fund.

Based on our audit, we found that for the items tested, the Merced Union High School District complied with the State laws and regulations referred to above, except as described in the Schedule of State Award Findings and Questioned Costs section of the accompanying Schedule of Findings and Questioned Costs. Further, based on our audit, for items not tested, nothing came to our attention to indicate that the Merced Union High School District had not complied with the laws and regulations. Our audit does not provide a legal determination on Merced Union High School District's compliance with the State laws and regulations referred to above.

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

Vasunek, Irvine, Day & Co., LLP

Fresno, California
September 27, 2007

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MERCED UNION HIGH SCHOOL DISTRICT

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

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

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

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.010, 84.011, 84.012, 84.018	Title I Cluster
84.027	Special Education

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>
Significant deficiencies identified not considered to be material weaknesses?	<u>Yes</u>
Type of auditors' report issued on compliance for State programs:	<u>Qualified</u>

MERCED UNION HIGH SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2007

There were no findings representing significant deficiencies, material weaknesses, nor instances of noncompliance related to the financial statements that were required to be reported in accordance with *Government Auditing Standards*.

MERCED UNION HIGH SCHOOL DISTRICT

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

There were no findings representing significant deficiencies, material weaknesses, nor instances of noncompliance including questioned costs that were required to be reported by OMB Circular A-133.

MERCED UNION HIGH SCHOOL DISTRICT

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

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

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
10000	Attendance
40000	State Compliance

DISTRICT OFFICE

2007-1 10000

Attendance Reporting

Finding

We noted the following with respect to attendance reporting:
The Annual Report of Attendance (Annual) was incorrectly stated on line A-10 at 5.97 ADA. The line should have been reported at 6.78 ADA. The reason for the error is that the preparer of the form had a formula error on the spreadsheet that was being used to sum all of the Special Ed – Nonpublic, Nonsectarian Schools ADA. There is no fiscal impact for the change to the Special Ed ADA since Special Ed is funded based on the Second Period Report of Attendance (P-2).

Recommendation

The District should revise the Annual to reflect the following:
Line A-10 6.78 ADA

District Response

A revised annual attendance report was forwarded to county on September 21, 2007 correcting Special Ed – Nonpublic School ADA to 6.78 ADA. To prevent future errors all spreadsheet calculations will be checked before submitting ADA reports.

2007-2 40000

Teacher Credentials

Finding

Teachers who teach classes in which English Language Learners (ELL) are enrolled are required to have a teaching credential that specifically allows them to teach those students. During our testing of the teacher credentials, we noted one teacher who had more than 20 percent ELLs, but did not have the required credential to teach those students. There is no fiscal impact for the teacher not having the required credential.

MERCED UNION HIGH SCHOOL DISTRICT

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

Recommendation

The District should be in the process of getting all of its teachers into compliance in order to comply with certification requirements in a timely fashion.

District Response

The District has the authority to require teachers to hold the EL authorization and to sanction teachers who do not possess said certification. The District has set April 15, 2008 as the date that all teachers in the core subject areas must have EL authorization. In addition, the district, recognizing that the requirement for EL authorization is that all teachers who teach EL students must be appropriately certified, will require all teachers, core and non-core to have EL authorization by April 15, 2008. This will allow the District to be compliant with Education Code and CCTC requirements. In addition, it will prepare the District for a positive review when these positions are audited in fall of 2008.

MERCED UNION HIGH SCHOOL DISTRICT

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

There were no prior year findings representing significant deficiencies, material weaknesses, nor instances of noncompliance related to the financial statements that were required to be reported in accordance with generally accepted government audit standards.

**MERCED UNION
HIGH SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2008

MERCED UNION HIGH SCHOOL DISTRICT
OF MERCED COUNTY
MERCED, CALIFORNIA
JUNE 30, 2008

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Dave Honey	President	2009
Ida M. Johnson	Vice President	2009
Mike Carpenter	Clerk	2011
Tim O'Neill	Member	2009
Sam Spangler	Member	2011

ADMINISTRATION

Robert H. Fore, Jr., Ph.D.	Superintendent
Diane C. Hockersmith, Ed.D	Deputy Superintendent
Yvonne Eagle	Director of Fiscal Services

MERCED UNION HIGH SCHOOL DISTRICT

TABLE OF CONTENTS

JUNE 30, 2008

FINANCIAL SECTION

Independent Auditors' Report	2
Management's Discussion and Analysis	4
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets	13
Statement of Activities	14
Fund Financial Statements	
Governmental Funds - Balance Sheet	15
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	16
Governmental Funds - Statement of Revenues, Expenditures, and Changes in Fund Balance	17
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the District-Wide Statement of Activities	18
Fiduciary Funds - Statement of Net Assets	19
Fiduciary Funds - Statement of Changes in Net Assets	20
Notes to Financial Statements	21

REQUIRED SUPPLEMENTARY INFORMATION

General Fund - Budgetary Comparison Schedule	48
Special Reserve Fund for Other than Capital Outlay - Budgetary Comparison	49

SUPPLEMENTARY INFORMATION

Schedule of Expenditures of Federal Awards	51
Local Education Agency Organization Structure	52
Schedule of Average Daily Attendance	53
Schedule of Instructional Time	54
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements	55
Schedule of Financial Trends and Analysis	56
Early Retirement Incentive Program	57
Excess Sick Leave	59
Note to Supplementary Information	60

SUPPLEMENTARY INFORMATION - UNAUDITED

Combining Statements - Non-Major Governmental Funds	
Combining Balance Sheet - Unaudited	63
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - Unaudited	65
Combining Statements - Private Purpose Scholarship Trust Funds	
Combining Statement of Net Assets - Unaudited	67
Combining Statement of Changes in Net Assets - Unaudited	68
Note to Unaudited Supplementary Information - Unaudited	73

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>	82
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	84
Report on State Compliance	86

MERCED UNION HIGH SCHOOL DISTRICT

TABLE OF CONTENTS

JUNE 30, 2008

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of Auditors' Results	89
Financial Statement Findings	90
Federal Award Findings and Questioned Costs	91
State Award Findings and Questioned Costs	92
Summary Schedule of Prior Audit Findings	93

FINANCIAL SECTION

This page left blank intentionally.



INDEPENDENT AUDITORS' REPORT

Board of Trustees
Merced Union High School District
Merced, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Merced Union High School District (the "District") as of and for the year ended June 30, 2008, 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 2007-08* issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Merced Union High School District, as of June 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2008, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The required supplementary information, such as management's discussion and analysis on pages 4 through 12 and budgetary comparison information on pages 48 and 49, is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

Vaukenek, Orkine, Day & Co., LLP

Fresno, California
November 19, 2008



Superintendent
Robert H. Fore, Ph.D.

Board of Trustees
Dave Honey
Ida M. Johnson
David M. Olsen
Tim O'Neill
Robert J. Weimer

Deputy Superintendent
Diane C. Hockersmith Ed.D

Assistant Superintendents
Raynee J. Daley, Ed.D.
Sylvia Smith

Castle Airport, 3430 A Street, Atwater, California 95301
Mailing Address: P.O. Box 2147 Merced, CA 95344
www.muhsd.k12.ca.us 209-385-6400 (Fax 209-385-6442)

This section of Merced Union High School District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2008. 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 Merced Union School District (the District) 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 (including capital assets) as well as all liabilities (including long-term obligations). Additionally, certain eliminations have occurred as prescribed by the statement in regards to interfund activity, payables and receivables.

The *Fund Financial Statements* include statements for each of the two categories of activities: governmental and fiduciary.

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

The *Fiduciary Activities* are presented in the trust and agency funds, which focus reporting on net assets.

The Primary unit of the government is the Merced Union High School District.

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Assets and the Statement of Activities

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

MERCED UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2008

These two statements report the District's net assets and changes in them. Net assets are the difference between assets and liabilities, which is 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. Other factors to consider are changes in the District's property tax base and the condition of the District's facilities.

The relationship between revenues and expenses is the District's *operating results*. Since the governing 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 an important component in this evaluation.

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

Governmental Activities - The District's services are reported in this category. This includes the education of grade nine through grade twelve students, adult education students, the operation of child development activities, 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, 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.

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.

MERCED UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2008

THE DISTRICT AS TRUSTEE

Reporting the Merced High School 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, scholarships, and deferred compensation. The District's fiduciary activities are reported in separate *Statements 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 total net assets were \$101.9 million for the fiscal year ended June 30, 2008, and \$100.3 million for the fiscal year ended June 30, 2007; an increase of \$1.6 million. Restricted net assets, which totaled \$40.2 million 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. The analysis below focuses on the net assets (Table 1) and change in net assets (Table 2) of the District's governmental activities for the past two fiscal years.

Table 1

(Amounts in millions)	School District Activities		Variance
	2008	2007	
Current and other assets	\$ 54.3	\$ 53.5	\$ 0.8
Capital assets	77.7	76.3	1.4
Total Assets	132.0	129.8	2.2
Current liabilities	6.5	5.2	1.3
Long-term obligations	23.6	24.3	(0.7)
Total Liabilities	30.1	29.5	0.6
Net assets			
Invested in capital assets, net of related debt	54.2	52.1	2.1
Restricted	40.2	37.4	2.8
Unrestricted	7.5	10.8	(3.3)
Total Net Assets	\$ 101.9	\$ 100.3	\$ 1.6

The \$7.5 million in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations.

MERCED UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2008

Changes in Net Assets

The results of this year's operations for the District as a whole are reported in the *Statement of Activities*. Table 2 takes the information from the Statement, rounds off the numbers, and rearranges them slightly so you can see our total revenues for the past two years along with the variance between the two fiscal years.

Table 2

(Amounts in millions)	School District Activities		Variance
	2008	2007	
Revenues			
Program revenues:			
Charges for services	\$ 1.3	\$ 1.4	\$ (0.1)
Operating grants and contributions	24.2	24.2	-
Capital grants and contributions	0.6	1.4	(0.8)
General revenues:			
Federal and state aid not restricted	57.5	56.9	0.6
Property taxes	16.6	14.8	1.8
Other general revenues	4.6	6.5	(1.9)
Total Revenues	<u>104.8</u>	<u>105.2</u>	<u>(0.4)</u>
Expenses			
Instruction related	71.6	64.7	6.9
Student support services	12.5	10.7	1.8
Administration	5.6	4.9	0.7
Maintenance and operations	9.7	8.9	0.8
Other	3.8	3.4	0.4
Total Expenses	<u>103.2</u>	<u>92.6</u>	<u>10.6</u>
Change in Net Assets	<u>\$ 1.6</u>	<u>\$ 12.6</u>	<u>\$ (11.0)</u>

Governmental Activities

As reported in the *Statement of Activities*, the cost of all of our governmental activities this year was \$103.2 million as compared to \$92.6 million in the prior year. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$16.6 million because the cost was paid by other governments and organizations who subsidized certain programs with grants and contributions (\$24.8 million). We paid for the remaining "public benefit" portion of our governmental activities with \$62.1 million in State funds and other revenues, like interest and general entitlements.

In Table 3, we have presented the cost and net cost of each of the District's largest functions - instruction, pupil support services, administration, maintenance and operations, and other miscellaneous functions. 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.

MERCED UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2008

Table 3

(Dollar amounts in millions)	Total Cost of Services		Net Cost of Services	
	2008	2007	2008	2007
Instruction	\$ 71.6	\$ 64.7	\$ 53.5	\$ 44.7
Pupil support services	12.5	10.7	6.8	5.6
Administration	5.6	4.9	5.0	4.0
Maintenance and operations	9.7	8.9	8.7	8.6
Other	3.8	3.4	3.2	2.7
Totals	\$ 103.2	\$ 92.6	\$ 77.2	\$ 65.6

The District's net cost of activities for the current year was \$77.2 million as compared to \$65.6 million in the prior year. A majority of the District's expenses were related to the education and support of its students (78%).

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds, restricted and unrestricted, reported a combined fund balance of \$47.8 million, while the prior year reported a balance of \$48.3 million, which is a decrease of \$0.5 million from last year.

The primary reasons for these decreases are:

- a. Our General Fund is our principal operating fund. The fund balance in the General Fund decreased \$3.4 million to \$12 million. This decrease is due to:
 1. Decreased Federal revenue
 2. Decreased State revenue
 3. Increased instructional related expenses
- b. Our Special Revenue Funds increased from the prior year showing a net increase of approximately \$0.8 million.
- c. The Debt Service Funds remained stable from last year.

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 on September 10, 2008. (A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report.)

MERCED UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2008

CAPITAL ASSET & DEBT ADMINISTRATION

Capital Assets

At June 30, 2008, the District had \$77.7 million in a broad range of capital assets, including land, buildings, and furniture and equipment, while at June 30, 2007, the net fixed assets totaled \$76.3 million. This amount represents a net increase (including additions, deductions and depreciation) of just over \$1.4 million.

Table 4

(Amounts in millions)	Governmental Activities		Variance
	2008	2007	
Land	\$ 11.1	\$ 11.1	\$ -
Construction in progress	6.0	5.8	0.2
Buildings and improvements	56.2	54.8	1.4
Equipment	4.4	4.6	(0.2)
Totals	\$ 77.7	\$ 76.3	\$ 1.4

This year's additions of \$4.5 million included several vehicles, land, site and building improvements and classroom equipment such as computers.

Long-Term Obligations

At the end of this year, the District had \$23.6 million in debt outstanding versus \$24.3 million last year, a decrease of 2.9 percent. General Obligations bonds consisted of: 1999 Current Interest Bonds, Series A and 1999 Capital Appreciation Bonds, Series A. Under GASB 34 reporting guidelines, the liability for our retiree health benefits is no longer included as long-term obligations; however, the amount (\$13.6 million) is disclosed in the Notes to the Financial Statements.

Table 5

(Amounts in millions)	Governmental Activities		Variance
	2008	2007	
General obligation bonds	\$ 23.3	\$ 23.8	\$ (0.5)
Compensated absences	0.1	0.1	-
Capitalized lease obligations	0.2	0.4	(0.2)
Totals	\$ 23.6	\$ 24.3	\$ (0.7)

The District's general obligation bond rating continues to be "Series A." The State limits the amount of general obligation debt that District's can issue to 35 percent of the assessed value of all taxable property within the District's boundaries.

MERCED UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2008

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2007-08 ARE NOTED BELOW:

Although test results were mixed for the 2006-07 school year, data released in August 2007 indicated that three of the five comprehensive schools had met their growth targets on the State's Academic Performance Index (API). Buhach Colony High School achieved a remarkable 53-point gain. And all but one school met the achievement criteria for federal Adequate Yearly Progress (AYP).

In the 2007-08 school year, several improvements were made in the instructional program. The Board adopted supplemental materials in math and English to be used in classrooms to augment the curriculum for students who have not passed the California High School Exit Exam. Measuring Up is a text that targets the California Standards and reviews important skills tested on the CAHSEE. New textbooks were adopted for Geometry and Algebra II. In addition, the Board adopted materials and textbooks for students needing intensive intervention in math.

District Pacing Guides and Benchmark assessments were updated in almost every core subject area. New Pacing Guides and Benchmark exams were developed for the Algebra Support class and Earth Science. The High Point program for English Language Development was fully implemented for the first time. Benchmark assessments and Pacing Guides were created.

In support of Merced High in the SAIT process, flow charts were developed that clearly delineate how students are placed in the various levels of math and English and what they must do to progress to more challenging levels.

Professional development was provided to teachers involved in teaching every core subject area with an emphasis on math and English Language Arts. Textbook publishers helped teachers become familiar with all aspects of the textbooks and ancillary materials. In addition, teachers were exposed to various instructional strategies at workshops.

New counselors hired during the 2006-07 school year with state AB 1802 funding continued to be trained to provide services to students as required by the legislation. At the same time, counselors and administrators created a plan to provide the additional two years of service to students who do not pass the CAHSEE by the end of their senior year, as required by the Valenzuela decision.

Further modifications were made to school site plans to bring them in line with District goals and priorities and to focus more on student achievement data as a measure of program effectiveness. Additionally, each school developed its own parent involvement policy consistent with Title I requirements. Principals are developing surveys to ask parents for input about the school and to ensure that each school is "parent friendly."

The District continues to use a data management system called Edusoft. This system allows teachers to analyze student performance on classroom assessments and common benchmark exams and project how well students will do on the California Standards Test. The Board allocated approximately \$75,000 for this data management system.

The District also continued to use Medi-Cal Administrative Activities (MAA) funds of nearly \$450,000 to provide expanded health services for students who would otherwise have difficulty attending school regularly. Students learning to manage asthma, diabetes, epileptic seizures, or who require other medical assistance during the school day, were supported by trained health professionals, allowing them to participate more fully in an integrated educational experience.

MERCED UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2008

FACILITIES ACTIVITIES FOR 2007-08

On January 31, 2007, the Board directed that the Agricultural curriculum program at East Campus Educational Center (ECEC) should be relocated to Golden Valley High School and Merced High School to encourage increased enrollment in the program. The transfer of the program required facility modifications at Golden Valley High School and at Merced High School including the addition of another science lab at Golden Valley High School to accommodate Ag Science and Ag Biology.

The District contracted with Darden Architects of Fresno in February 2007 to prepare plans and specifications which were completed in April 2007. The District solicited bids for the conversion of the Tech 4 classroom to a full science lab in May 2007 and awarded the bid to Commercial Construction Company for \$210,700. Work was completed by early August 2007.

On March 14, 2007, the Board awarded a piggyback bid to Mobile Modular, Inc., to supply five portable classrooms to Golden Valley High School and five portable classrooms to Merced High School for \$203,950. The Board also authorized relocating one portable from Atwater High School to Livingston High School and the use of FF&J Architects to prepare plans. These portables are to accommodate projected enrollment increases and the relocation of the Agricultural Program from ECEC. The portable for Livingston High School initiates the relocation of three portables at Livingston High School in compliance with the Livingston High School enlargement master plan.

The site preparation of all sites include extending high and low voltage electricity, fire alarms, data lines, pad preparation, and ramp transitions. The bid for site preparation was awarded for \$794,519 to Davis Moreno Construction.

Facilities planning activities during the year of significance include the approval of the Bellevue Road Area High School EIR in November, 2007 prepared by Quad Knoff Consultants; the approval of the mitigated negative declaration for Livingston High School Enlargement prepared by Santa Fe Land Planning; completion of the plans for the fourth academy at Buhach Colony High School by California Design West; initial planning of the modernization of the Agricultural classrooms and shop at Atwater High School; and finalization of the off-site improvement plans for Bellevue Road Area High School by Mid-Valley Engineering.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

At the time the District budget was developed, a State budget was not yet adopted. Much of the District's budget is based upon the Governor's *May Revise* tempered with recommendations from School Services of California and the Merced County Office of Education. Budget Assumptions were presented to and accepted by the Merced Union High School District Governing Board on June 25, 2008.

MERCED UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2008

Some noteworthy components included in this budget are listed below.

- Revenue
 - COLA of 5.66 %
 - Deficit factor of 5.357 %
 - Funded ADA budgeted at 10,281
 - No Equalization aid was budgeted
 - Lottery budgeted at \$115.00 per ADA for unrestricted and \$ 16.00 per ADA for restricted instructional materials

- Expenditures
 - Will match the income for State and Federal Categorical programs
 - Food Services Program will be self-supporting with no encroachments into the General Fund
 - All employees have been moved to the next appropriate step on the salary schedule
 - Ongoing Major Maintenance account expenditures have been budgeted at 3% percent

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:

Diane C. Hockersmith, Ed.D
Deputy Superintendent, Business Services
Merced Union High School District
3430 A Street, Castle Airport
Atwater, California 95301

Telephone number: (209) 385-6411
e-mail: dhockersmith@muhsd.k12.ca.us

This page left blank intentionally.

MERCED UNION HIGH SCHOOL DISTRICT

STATEMENT OF NET ASSETS
 JUNE 30, 2008

	<u>Governmental Activities</u>
ASSETS	
Deposits and investments	\$ 45,492,941
Receivables	8,519,565
Stores inventories	321,415
Nondepreciable capital assets	17,087,516
Capital assets being depreciated	103,442,400
Accumulated depreciation	<u>(42,809,178)</u>
Total Assets	<u>132,054,659</u>
LIABILITIES	
Accounts payable	6,158,808
Deferred revenue	364,389
Current portion of long-term obligations	1,532,907
Noncurrent portion of long-term obligations	<u>22,109,872</u>
Total Liabilities	<u>30,165,976</u>
NET ASSETS	
Invested in capital assets, net of related debt	54,205,606
Restricted for:	
Debt service	2,622,462
Capital projects	12,440,390
Educational programs	5,787,860
Other activities	19,315,260
Unrestricted	<u>7,517,105</u>
Total Net Assets	<u><u>\$ 101,888,683</u></u>

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

MERCED UNION HIGH SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

Functions/Programs	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Instruction	\$ 57,785,031	\$ 489,573	\$ 14,025,474	\$ 554,891
Instruction-related activities:				
Supervision of instruction	3,387,699	1,947	1,705,465	-
Instructional library, media and technology	1,496,287	-	132,632	-
School site administration	8,915,650	3,736	1,158,711	-
Pupil services:				
Home-to-school transportation	2,602,628	-	630,856	-
Food services	3,619,710	723,050	2,651,894	-
All other pupil services	6,299,391	68	1,709,290	-
General administration:				
Data processing	1,156,479	-	-	-
All other general administration	4,454,253	10,431	639,609	-
Plant services	9,662,231	2,853	953,017	-
Ancillary services	1,893,905	-	72,613	-
Interest on long-term obligations	1,271,458	-	-	-
Other outgo	634,323	42,130	502,158	-
Total Governmental-Type Activities	\$ 103,179,045	\$ 1,273,788	\$ 24,181,719	\$ 554,891
General revenues and subventions:				
Property taxes, levied for general purposes				
Property taxes, levied for debt service				
Taxes levied for other specific purposes				
Federal and State aid not restricted to specific purposes				
Interest and investment earnings				
Miscellaneous				
Subtotal, General Revenues				
Change in Net Assets				
Net Assets - Beginning				
Net Assets - Ending				

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

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

**Governmental
Activities**

\$	(42,715,093)
	(1,680,287)
	(1,363,655)
	(7,753,203)
	(1,971,772)
	(244,766)
	(4,590,033)
	(1,156,479)
	(3,804,213)
	(8,706,361)
	(1,821,292)
	(1,271,458)
	(90,035)
	<u>(77,168,647)</u>
	14,801,190
	1,716,039
	65,549
	57,497,790
	1,186,828
	3,461,143
	<u>78,728,539</u>
	1,559,892
	100,328,791
\$	<u>101,888,683</u>

MERCED UNION HIGH SCHOOL DISTRICT

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2008

	General Fund	Special Reserve Non-Capital Fund	Non-Major Governmental Funds
ASSETS			
Deposits and investments	\$ 13,514,735	\$ 18,039,619	\$ 13,938,587
Receivables	7,918,882	-	600,683
Due from other funds	131,102	-	4,071,889
Stores inventories	213,485	-	107,930
Total Assets	\$ 21,778,204	\$ 18,039,619	\$ 18,719,089
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 5,401,568	\$ -	\$ 757,240
Due to other funds	4,071,890	-	131,101
Deferred revenue	352,190	-	12,199
Total Liabilities	9,825,648	-	900,540
FUND BALANCES			
Reserved for:			
Revolving cash	20,000	-	600
Stores inventories	213,485	-	107,930
Legally restricted	4,307,804	-	1,480,056
Unreserved:			
Designated	7,411,267	18,039,619	13,474,694
Undesignated, reported in:			
Special revenue funds	-	-	132,807
Debt service funds	-	-	2,622,462
Total Fund Balance	11,952,556	18,039,619	17,818,549
Total Liabilities and Fund Balances	\$ 21,778,204	\$ 18,039,619	\$ 18,719,089

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

**Total
Governmental
Funds**

\$	45,492,941
	8,519,565
	4,202,991
	321,415
	<hr/>
\$	58,536,912

\$	6,158,808
	4,202,991
	364,389
	<hr/>
	10,726,188

	20,600
	321,415
	5,787,860
	<hr/>
	38,925,580
	 132,807
	2,622,462
	<hr/>
	47,810,724
	<hr/>
\$	58,536,912

This page left blank intentionally.

MERCED UNION HIGH SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2008

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

Total Fund Balance - Governmental Funds		\$ 47,810,724
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	\$ 120,529,916	
Accumulated depreciation is	<u>(42,809,178)</u>	
Total capital assets		77,720,738
Long-term liabilities at year end consist of:		
General obligation bonds - current interest bonds	(8,105,000)	
General obligation bonds - capital appreciation bonds	(15,171,099)	
Compensated absences	(127,647)	
Capital lease obligations	<u>(239,033)</u>	
Total long-term liabilities		<u>(23,642,779)</u>
Total Net Assets - Governmental Activities		<u><u>\$ 101,888,683</u></u>

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

MERCED UNION HIGH SCHOOL DISTRICT

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2008

	General Fund	Special Reserve Non-Capital Fund
REVENUES		
Revenue limit sources	\$ 68,523,679	\$ -
Federal sources	6,963,409	-
Other state sources	15,504,048	-
Other local sources	2,374,845	799,697
Total Revenues	<u>93,365,981</u>	<u>799,697</u>
EXPENDITURES		
Current		
Instruction	53,967,001	-
Instruction-related activities:		
Supervision of instruction	3,260,156	-
Instructional library, media and technology	1,396,385	-
School site administration	8,217,528	-
Pupil Services:		
Home-to-school transportation	2,382,003	-
Food services	58,328	-
All other pupil services	6,187,171	-
General administration:		
Data processing	1,357,694	-
All other general administration	4,236,454	-
Plant services	8,487,306	-
Facility acquisition and construction	268,804	-
Ancillary services	1,893,905	-
Other outgo	634,323	-
Debt service		
Principal	16,740	-
Interest and other	3,455	-
Total Expenditures	<u>92,367,253</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>998,728</u>	<u>799,697</u>
Other Financing Sources (Uses):		
Transfers in	201,749	-
Transfers out	(4,649,663)	-
Net Financing Sources (Uses)	<u>(4,447,914)</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>(3,449,186)</u>	<u>799,697</u>
Fund Balance - Beginning	15,401,742	17,239,922
Fund Balance - Ending	<u>\$ 11,952,556</u>	<u>\$ 18,039,619</u>

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

Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ 68,523,679
2,699,733	9,663,142
3,531,110	19,035,158
4,342,416	7,516,958
<u>10,573,259</u>	<u>104,738,937</u>
1,652,819	55,619,820
126,487	3,386,643
-	1,396,385
618,897	8,836,425
-	2,382,003
3,477,603	3,535,931
66,594	6,253,765
-	1,357,694
163,817	4,400,271
963,468	9,450,774
3,837,761	4,106,565
-	1,893,905
-	634,323
1,493,796	1,510,536
452,015	455,470
<u>12,853,257</u>	<u>105,220,510</u>
<u>(2,279,998)</u>	<u>(481,573)</u>
4,649,663	4,851,412
(201,749)	(4,851,412)
<u>4,447,914</u>	<u>-</u>
2,167,916	(481,573)
15,650,633	48,292,297
<u>\$ 17,818,549</u>	<u>\$ 47,810,724</u>

MERCED UNION HIGH SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE DISTRICT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2008

Total Net Change in Fund Balances - Governmental Funds	\$ (481,573)
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:	
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures, however, for governmental activities, those costs are shown in the Statement of Net Assets and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities.	
This is the amount by which capital outlays exceed depreciation in the period.	
Capital outlays	\$ 4,487,870
Depreciation expense	<u>(3,092,973)</u>
	1,394,897
Loss on disposal of capital assets is reported in the government-wide Statement of Net Assets, but is not recorded in the governmental funds.	(10,845)
Interest accrued during the year on the State School Building Loans is considered principal reduction. The amount of interest charged on the loans for the year was:	(106)
Interest on long-term obligations in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the Statement of Activities is the result of \$821,015 of additional accumulated interest that was accreted on the District's "capital appreciation" general obligation bonds.	(821,015)
In the Statement of Activities compensated absences (vacations) is measured by the amounts earned during the year. In the governmental funds, however, expenditures for this item are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation earned was more than the amounts used by \$37,135.	(37,135)
Repayment of debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities:	
General obligation bonds	1,300,000
State school building loans	5,133
Capital lease obligations	<u>210,536</u>
Change in Net Assets of Governmental Activities	<u>\$ 1,559,892</u>

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

MERCED UNION HIGH SCHOOL DISTRICT

FIDUCIARY FUNDS
 STATEMENT OF FIDUCIARY NET ASSETS
 JUNE 30, 2008

	Private- Purpose Trusts	Agency		Total
	Scholarships	Deferred	Student	
		Compensation	Body	
ASSETS				
Deposits and investments	\$ 1,355,951	\$ 2,291,542	\$ 848,756	\$ 4,496,249
Total Assets	<u>\$ 1,355,951</u>	<u>\$ 2,291,542</u>	<u>\$ 848,756</u>	<u>\$ 4,496,249</u>
LIABILITIES				
Due to student groups and employees	\$ -	\$ 2,291,542	\$ 848,756	\$ 3,140,298
Total Liabilities	<u>-</u>	<u>2,291,542</u>	<u>848,756</u>	<u>3,140,298</u>
NET ASSETS				
Reserved for scholarships	1,355,951	-	-	1,355,951
Total Net Assets	<u>\$ 1,355,951</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,355,951</u>

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

MERCED UNION HIGH SCHOOL DISTRICT

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2008

	<u>Private- Purpose Trusts Scholarships</u>
ADDITIONS	
Trust income	\$ 458,949
Interest	43,350
Total Additions	<u>502,299</u>
DEDUCTIONS	
Scholarships awarded	424,981
Total Deductions	<u>424,981</u>
Change in Net Assets	77,318
Net Assets - Beginning	<u>1,278,633</u>
Net Assets - Ending	<u>\$ 1,355,951</u>

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

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Merced Union High School District was established in 1915 and comprises the area of approximately 625 square miles located in Merced County. The District operates under a locally-elected five-member Board form of government and provides educational services to grades 9 - 12 as mandated by the State and/or Federal agencies. The District is currently operating schools in the cities of Atwater, Livingston and Merced. The City of Merced has three campuses. Merced High School and Golden Valley High Schools have classes at the ninth through twelfth grade levels. East Campus Educational Center (ECEC) supports four educational programs: Yosemite High School which serves as the District's continuation school; Independence High School which provides independent study opportunities; classes for students from Merced and Golden Valley High School; and the main facility for the Adult School Program is located at ECEC. The City of Atwater has two campuses. Atwater High School has classes at the ninth through twelfth grade levels. Buhach Colony High School opened in August of 2001 with classes at the ninth through twelfth grade levels.

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

Component Units

Component units are legally separate organizations for which the District may be financially accountable. Component units may include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units may be other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. The District has no component units.

Other Related Entities

Joint Powers Agencies and Public Entity Risk Pools The District is associated with three public entity risk pools. These organizations do not meet the criteria for inclusion as component units of the District. Additional information is presented in Note 15 to the financial statements. These organizations are:

Self-Insured Schools of California III (Health and Welfare Program)
Self-Insured Schools of California II (Property and Liability Program)
Merced County Schools Insurance Group

Basis of Presentation - Fund Accounting

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

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

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

Major Governmental Funds

General Fund The General Fund is the chief operating fund for all districts. It is used to account for the ordinary operations of a district. All transactions except those required or permitted by law to be in another fund are accounted for in this fund.

Special Reserve Fund for Other Than Capital Outlay Projects The Special Reserve Fund for Other Than Capital Outlay Projects is used primarily to provide for the accumulation of General Fund monies for general operating purposes other than for capital outlay (*Education Code* Section 42840).

Non-Major Governmental Funds

Special Revenue Funds The Special Revenue Funds are established to account for the proceeds from specific revenue sources (other than trusts or for major capital projects) that are restricted to the financing of particular activities:

Adult Education Fund The Adult Education Fund is used to account separately for Federal, State, and local revenues for adult education programs and is to be expended for adult education purposes only.

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

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

Deferred Maintenance Fund The Deferred Maintenance Fund is used to account separately for State apportionments and the District's contributions for deferred maintenance purposes (*Education Code* sections 17582-17587) and for items of maintenance approved by the State Allocation Board.

Pupil Transportation Equipment Fund The Pupil Transportation Equipment Fund is used to account separately for State and local revenues specifically for the acquisition, rehabilitation, or replacement of equipment used to transport students (*Education Code* Section 41852[b]).

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

Capital Project Funds The Capital Project funds are established to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

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

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

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

Special Reserve Fund for Capital Outlay Projects The Special Reserve Fund for Capital Outlay Projects exists primarily to provide for the accumulation of General Fund monies for capital outlay purposes (*Education Code* Section 42840).

Debt Service Funds The Debt Service Funds are established to account for the accumulation of resources for and the payment of principal and interest on long-term obligations.

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

Tax Override Fund The Tax Override Fund is used for the repayment of voted indebtedness (other than Bond Interest and Redemption Fund repayments) to be financed from ad valorem tax levies.

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into two classifications: private-purpose trust funds and agency funds.

Trust funds are used to account for the assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's trust funds are scholarship and deferred compensation accounts. 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).

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

Basis of Accounting - Measurement Focus

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

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, of the District and for each governmental function, and exclude fiduciary activity. Direct expenses are those that are specifically associated with a service, program, or department and are therefore, clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the Statement of Activities, except for depreciation. 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 or business segment is self-financing or draws from the general revenues of the District. Eliminations have been made to minimize the double counting of internal activities.

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

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

Governmental Funds All governmental funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund 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 financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide financial 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.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

Revenues – Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter, to be used to pay liabilities of the current fiscal year. Generally, available is defined as collectible within 45 or 60 days. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

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

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

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

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

Investments

Investments held at June 30, 2008, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county pools are determined by the program sponsor.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

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.

Stores Inventory

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

Capital Assets and Depreciation

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

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

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

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities columns of the Statement of Net Assets.

Compensated Absences

Accumulated unpaid vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide statement of net assets as long-term obligations. 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.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

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

Accrued Liabilities and Long-Term Obligations

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

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

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.

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.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The government-wide financial statements reports \$40,165,972 of restricted net assets, of which \$15,202,135 is restricted by enabling legislation.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

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 and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented in the financial statements. Interfund transfers are eliminated in the governmental activities column of the *Statement of Activities*.

Estimates

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

Budgetary Data

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

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

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 Merced bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

New Accounting Pronouncements

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

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

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

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

In June 2005, the GASB issued GASBS No. 47, *Accounting for Termination Benefits*. GASBS No. 47 addresses accounting for both voluntary and involuntary termination benefits. For termination benefits that affect an employer's obligations for defined benefit OPEB, the provisions of GASBS No. 47 should be applied simultaneously with the requirements of GASBS No. 45. For all other termination benefits, including those that affect an employer's obligations for defined benefit pension benefits, GASBS No. 47 is effective for financial statements for periods beginning after June 15, 2005.

In May 2007, GASB issued GASBS No. 50, *Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27*. This Statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement is effective for periods beginning after June 15, 2007, except for requirements related to the use of the entry age actuarial cost method for the purpose of reporting a surrogate funded status and funding progress of plans that use the aggregate actuarial cost method, which are effective for periods for which the financial statements and RSI contain information resulting from actuarial valuations as of June 15, 2007, or later. Early implementation is encouraged.

In June 2007, GASB issued GASBS No. 51, *Accounting and Financial Reporting for Intangible Assets*. This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This Statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009. The provisions of this Statement generally are required to be applied retroactively. For governments that were classified as phase 1 or phase 2 governments for the purpose of implementing Statement No. 34, retroactive reporting is required for intangible assets acquired in fiscal years ending after June 30, 1980, except for those considered to have indefinite useful lives as of the effective date of this Statement and those that would be considered internally generated.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

In November 2007, GASB issued GASBS No. 52, *Land and Other Real Estate Held as Investments by Endowments*. This Statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value. The guidance in this Statement is effective for financial statements for reporting periods beginning after June 15, 2008, with earlier application encouraged.

In June 2008, GASB issued GASBS No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This Statement is intended to improve how State and local governments report information about derivative instruments—financial arrangements used by governments to manage specific risks or make investments—in their financial statements. The Statement specifically requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The guidance in this Statement also addresses hedge accounting requirements and is effective for financial statements for reporting periods beginning after June 15, 2009, with earlier application encouraged.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2008, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 45,492,941
Fiduciary funds	4,496,249
Total Deposits and Investments	<u>\$ 49,989,190</u>

Deposits and investments as of June 30, 2008, consist of the following:

Cash on hand and in banks	\$ 2,205,107
Cash in revolving	20,600
Investments	47,763,483
Total Deposits and Investments	<u>\$ 49,989,190</u>

Policies and Practices

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

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

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

General Authorizations

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Pool and purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

Segmented Time Distribution

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following schedule that shows the distribution of the District's investments by maturity:

Investment Type	Fair Value	12 Months or Less	13 - 24 Months	25 - 60 Months	More Than 60 Months
Mutual Funds	\$ 2,291,542	\$ 2,291,542	\$ -	\$ -	\$ -
County Pool	45,471,941	45,471,941	-	-	-
Total	<u>\$47,763,483</u>	<u>\$47,763,483</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of the year-end for each investment type.

Investment Type	Fair Value	Minimum Legal Rating	Rating as of Year End		
			AAA	Aa	Unrated
Mutual Funds	\$ 2,291,542	N/A	\$ -	\$ -	\$ 2,291,542
County Pool	45,471,941	N/A	-	-	45,471,941
Total	<u>\$ 47,763,483</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ 47,763,483</u>

N/A - Not applicable

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government code. There were no investments in any one issuer that represent five percent or more of the total investments.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2008, the District's bank balance of \$1,695,673 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

MERCED UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

Custodial Credit Risk - Investments

This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. Of the investment in Mutual Funds of \$2,291,542, the District has a custodial credit risk exposure of \$2,291,542, because the related securities are uninsured, unregistered and held by the brokerage firm which is also the counterparty for these securities. The District does not have a policy limiting the amount of securities that can be held by counterparties.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2008, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Non-Major Governmental Funds	Total
Federal Government			
Categorical aid	\$ 1,751,379	\$ 374,612	\$ 2,125,991
State Government			
Apportionment	4,052,589	91,691	4,144,280
Categorical aid	1,109,573	33,772	1,143,345
Lottery	695,336	-	695,336
Local Sources	310,005	100,608	410,613
Total	<u>\$ 7,918,882</u>	<u>\$ 600,683</u>	<u>\$ 8,519,565</u>

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
Governmental Activities				
Capital Assets not being depreciated				
Land	\$ 11,065,940	\$ -	\$ -	\$ 11,065,940
Construction in progress	5,810,785	1,632,285	1,421,494	6,021,576
Total Capital Assets Not Being Depreciated	<u>16,876,725</u>	<u>1,632,285</u>	<u>1,421,494</u>	<u>17,087,516</u>
Capital Assets being depreciated				
Land improvements	14,622,625	-	-	14,622,625
Buildings and improvements	72,871,230	3,980,140	-	76,851,370
Furniture and equipment	12,033,757	296,939	362,291	11,968,405
Total Capital Assets Being Depreciated	<u>99,527,612</u>	<u>4,277,079</u>	<u>362,291</u>	<u>103,442,400</u>
Less Accumulated Depreciation				
Land improvements	8,498,689	497,447	-	8,996,136
Buildings and improvements	24,145,816	2,018,945	-	26,164,761
Furniture and equipment	7,423,146	576,581	351,446	7,648,281
Total Accumulated Depreciation	<u>40,067,651</u>	<u>3,092,973</u>	<u>351,446</u>	<u>42,809,178</u>
Governmental Activities Capital Assets, Net	<u>\$ 76,336,686</u>	<u>\$ 2,816,391</u>	<u>\$ 1,432,339</u>	<u>\$ 77,720,738</u>

Depreciation expense was charged to governmental functions as follows:

Governmental Activities		
Instruction		\$ 2,165,211
Supervision of instruction		315
Instructional library, media, and technology		99,902
School site administration		76,252
Home-to-school transportation		218,390
Food services		83,427
All other pupil services		45,404
Data processing		25,418
All other general administration		72,684
Plant services		305,970
Total Depreciation Expenses Governmental Activities		<u>\$ 3,092,973</u>

MERCED UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

NOTE 5 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances at June 30, 2008, are as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Major Governmental Fund		
General	\$ 131,102	\$ 4,071,890
Non-Major Governmental Funds		
Adult	303	73,417
Child Development	-	13,229
Cafeteria	24,827	44,021
Deferred Maintenance	899	-
Special Reserve - Capital Outlay	<u>4,045,860</u>	<u>434</u>
Total Non-Major Governmental Funds	<u>4,071,889</u>	<u>131,101</u>
Total All Governmental Funds	<u><u>\$ 4,202,991</u></u>	<u><u>\$ 4,202,991</u></u>

Operating Transfers

Interfund transfers for the year ended June 30, 2008, consisted of the following:

The General Fund transferred to the Deferred Maintenance Fund for the required State match.	\$ 449,663
The General Fund transferred to the Cafeteria Fund for a temporary loan.	200,000
The General Fund transferred to the Special Reserve - Capital Outlay Fund for future capital projects.	4,000,000
The Cafeteria Fund transferred to the General Fund to pay back temporary loan.	<u>201,749</u>
Total	<u><u>\$ 4,851,412</u></u>

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2008, consisted of the following:

	General Fund	Non-Major Governmental Funds	Total
Vendor payables	\$ 1,491,637	\$ 757,241	\$ 2,248,878
State apportionment	1,635,020	-	1,635,020
Deferred payroll	1,189,698	-	1,189,698
Health insurance	1,085,213	-	1,085,213
Total	<u>\$ 5,401,568</u>	<u>\$ 757,241</u>	<u>\$ 6,158,809</u>

NOTE 7 - DEFERRED REVENUE

Deferred revenue at June 30, 2008, consists of the following:

	General Fund	Non-Major Governmental Funds	Total
Federal financial assistance	\$ 251,950	\$ 2,720	\$ 254,670
State categorical aid	100,240	-	100,240
Other local	-	9,479	9,479
Total	<u>\$ 352,190</u>	<u>\$ 12,199</u>	<u>\$ 364,389</u>

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 8 - LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2007	Additions and Accretion	Deductions	Balance June 30, 2008	Due in One Year
1999 Current Interest Bonds, Series A	\$ 9,405,000	\$ -	\$ 1,300,000	\$ 8,105,000	\$ 1,400,000
1999 Capital Appreciation Bonds, Series A	14,350,084	821,015	-	15,171,099	-
State school building loans	5,027	106	5,133	-	-
Accumulated vacation - net	90,512	127,647	90,512	127,647	-
Capital leases	449,569	-	210,536	239,033	132,907
Total	<u>\$24,300,192</u>	<u>\$ 948,768</u>	<u>\$ 1,606,181</u>	<u>\$ 23,642,779</u>	<u>\$ 1,532,907</u>

The General Obligation Bonds are paid through the Bond Interest and Redemption Fund with proceeds from the assessment on property owners in the applicable boundaries. The State School Building Loans are paid through the Tax Override Fund. The Capital Leases are paid through the General Fund and Capital Facilities Fund. The accumulated vacation liability is paid through the fund that the employee worked.

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Bond Issue	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2007	Accreted/ (Redeemed)	Bonds Outstanding June 30, 2008
Current Interest							
Series A	08/01/99	08/01/12	4.5 to 5.5%	\$ 10,610,000	\$ 9,405,000	\$ (1,300,000)	\$ 8,105,000
Capital Appreciation							
Series A	08/01/12	08/01/24	5.4 to 5.75%	13,573,396	14,350,084	821,015	15,171,099
Total				<u>\$24,183,396</u>	<u>\$23,755,084</u>	<u>\$ (478,985)</u>	<u>\$ 23,276,099</u>

The Merced Union High School District 1999 General Obligation Bonds, Series A, in the aggregate principal amount of \$24,631,061, are being issued by the Board of Supervisors of the County of Merced on behalf of the Merced Union High School District. The Series A Bonds represent a general obligation of the District, payable solely from *ad valorem* property taxes levied and collected by the County of Merced.

Interest with respect to the Current Interest Series A Bonds accrues from August 1, 1999, and is payable semiannually commencing February 1, 2000. The Capital Appreciation Series A Bonds are dated the date of delivery of the Series A Bonds and accrete interest from such date, compounded semiannually on February 1 and August 1 of each year, commencing February 1, 2000. Both series are issuable as fully registered Series A bonds.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

Debt Service Requirements to Maturity

1999 Current Interest, Series A - Payment Summary

The bonds mature through 2013 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2009	\$ 1,400,000	\$ 360,333	\$ 1,760,333
2010	1,500,000	293,632	1,793,632
2011	1,615,000	220,776	1,835,776
2012	1,730,000	140,035	1,870,035
2013	1,860,000	48,825	1,908,825
Total	<u>\$ 8,105,000</u>	<u>\$ 1,063,601</u>	<u>\$ 9,168,601</u>

1999 Capital Appreciation, Series A - Accretion Summary:

Maturity	Accreted Obligation	Unaccreted Interest	Final Maturity
2014	\$ 1,532,400	\$ 467,600	\$ 2,000,000
2015	1,476,899	568,101	2,045,000
2016	1,424,544	665,456	2,090,000
2017	1,375,592	764,408	2,140,000
2018	1,323,236	861,764	2,185,000
2019	1,273,950	961,050	2,235,000
2020	1,227,502	1,057,498	2,285,000
2021	1,187,784	1,152,216	2,340,000
2022	1,143,854	1,246,146	2,390,000
2023	1,105,629	1,339,371	2,445,000
2024	1,068,000	1,432,000	2,500,000
2025	1,031,709	1,523,291	2,555,000
Total	<u>\$ 15,171,099</u>	<u>\$ 12,038,901</u>	<u>\$ 27,210,000</u>

State and Public School Building Loans

State school building loans outstanding as of June 30, 2008, are as follows:

Year Disbursed	Interest Rate	Balance July 1, 2007	Interest Charge	Repayment and State Credit Current Year	Outstanding June 30, 2008
1986-87	4.80%	\$ 5,027	\$ 106	\$ 5,133	\$ -

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

The State and Public School Building Loans are secured by all sites purchased and improved, all equipment purchased, and all buildings constructed, reconstructed, altered, or added to through the expenditure of such funds in accordance with Section 16019 of the Education Code.

Annual repayment is determined by the State Controller in accordance with Section 16214 of the Education Code.

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2008, amounted to \$127,647.

Capital Leases

The District has entered into various capital lease arrangements at June 30, 2008. The District's liability on lease agreements with options to purchase are summarized below:

Balance, July 1, 2007	\$ 449,569
Payments	<u>210,536</u>
Balance, June 30, 2008	<u><u>\$ 239,033</u></u>

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2009	\$ 143,643
2010	143,054
2011	48,129
2012	<u>17,328</u>
Total	352,154
Less: Amount Representing Interest	<u>113,121</u>
Present Value of Minimum Lease Payments	<u><u>\$ 239,033</u></u>

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 9 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Special Reserve Non-Capital Fund	Non-Major Governmental Funds	Total
Reserved				
Revolving cash	\$ 20,000	\$ -	\$ 600	\$ 20,600
Stores inventory	213,485	-	107,930	321,415
Restricted programs	4,307,804	-	1,480,056	5,787,860
Total Reserved	<u>4,541,289</u>	<u>-</u>	<u>1,588,586</u>	<u>6,129,875</u>
Unreserved				
Designated				
Economic uncertainties	2,852,813	-	-	2,852,813
Other designation	4,558,454	18,039,619	13,474,694	36,072,767
Total Designated	<u>7,411,267</u>	<u>18,039,619</u>	<u>13,474,694</u>	<u>38,925,580</u>
Undesignated	-	-	2,755,269	2,755,269
Total Unreserved	<u>7,411,267</u>	<u>18,039,619</u>	<u>16,229,963</u>	<u>41,680,849</u>
Total	<u>\$ 11,952,556</u>	<u>\$ 18,039,619</u>	<u>\$ 17,818,549</u>	<u>\$ 47,810,724</u>

NOTE 10 - EXPENDITURES (BUDGET VERSUS ACTUAL)

At June 30, 2008, the following District major fund exceeded the budgeted amounts in total as follows:

Fund	Expenditures and Other Uses		
	Budget	Actual	Excess
General			
Certificated Salaries	\$ 42,654,409	\$ 43,257,801	\$ 603,392
Classified Salaries	\$ 13,497,795	\$ 13,907,675	\$ 409,880
Other outgo	\$ 438,323	\$ 493,516	\$ 55,193
Capital outlay	\$ 733,820	\$ 954,242	\$ 220,422

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 11 - POSTEMPLOYMENT BENEFITS

The District provides postemployment health care benefits, in accordance with District employment contracts, to all employees who retire from the District on or after attaining age 55 with at least ten years of service. Currently, 131 employees meet those eligibility requirements. The District contributes a negotiated portion of the amount of premiums incurred by retirees and their dependents and the retiree contributes the remainder. Expenditures for postemployment benefits are recognized on a pay-as-you-go basis, as premiums are paid. During the year, expenditures of \$1,088,795 were recognized for retirees' health care benefits.

The approximate accumulated future liability for the District at June 30, 2008, amounts to \$13,572,787. The estimated liability is based on an actuarial study performed at June 28, 2008.

NOTE 12 - RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2008, the District contracted with Self Insured Schools of California for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

Workers' Compensation

For fiscal year 2008, the District participated in the Merced County Schools Insurance Group, an insurance purchasing pool. The intent of the Merced County Schools Insurance Group is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Merced County Schools Insurance Group. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in the Merced County Schools Insurance Group. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage. A participant will then either receive money from or be required to contribute to the "equity-pooling fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the Merced County Schools Insurance Group. Participation in the Merced County Schools Insurance Group is limited to districts that can meet the Merced County Schools Insurance Group selection criteria.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

Coverage provided by MCSIG for property and liability and workers' compensation is as follows:

<u>Insurance Program / Company Name</u>	<u>Type of Coverage</u>	<u>Limits</u>
<u>Workers' Compensation Program</u>		
Merced County Schools Insurance Group	Workers' Compensation	\$ 19,000,000 per year \$ 250,000 per occurrence
<u>Excess Property and Liability Program</u>		
School Excess Liability Fund (SELF)	Excess Property and Liability	Per occurrence: \$ 25,000,000-Liability, Auto. \$ 75,000,000-Property \$ 250,000-Compreh. Crime \$ 15,000,000-Boiler and Machinery \$ 2,500-Student Accident

Employee Medical Benefits

The District has contracted with the Self Insured Schools of California Health and Welfare Program to provide employee medical and surgical benefits. Self Insured Schools of California Health and Welfare Program is a shared risk pool comprised of agencies within California. Rates are set through an annual calculation process. The District pays a monthly contribution, which is placed in a common fund from which claim payments are made for all participating Districts. Claims are paid for all participants regardless of claims flow. The Board of Directors has a right to return monies to a district subsequent to the settlement of all expenses and claims if a district withdraws from the pool.

NOTE 13 - 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 California State Teachers' Retirement System (CalSTRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS).

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

CalSTRS

Plan Description

The District contributes to the California State Teachers' Retirement System (CalSTRS); a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. 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. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7919 Folsom Blvd., Sacramento, 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 CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2007-2008 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the fiscal years ending June 30, 2008, 2007, and 2006, were \$3,625,242, \$3,268,128, and \$2,969,597, respectively, and equal 100 percent of the required contributions for each year.

CalPERS

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 95811.

Funding Policy

Active plan members are required to contribute 7.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2007-2008 was 9.306 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2008, 2007, and 2006, were \$1,229,695, \$1,046,691, and \$968,969, respectively, and equal 100 percent of the required contributions for each year.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by social security or an alternative plan. The District has elected to use its alternative plan. Contributions made by the District and an employee vest immediately. The District contributes 6.2 percent of an employee's gross earnings. An employee is required to contribute 6.2 percent of his or her gross earnings to the pension plan.

On Behalf Payments

The State of California makes contributions to CalSTRS and CalPERS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$1,923,140 (4.517 percent of salaries subject to CalSTRS). No contributions were made for CalPERS for the year ended June 30, 2008. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budget amounts reported in the General Fund Budgetary Schedule.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from Federal and State agencies in the form of grants. 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, 2008.

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, 2008.

Operating Leases

The District has entered into various operating leases for buildings and equipment with lease terms in excess of one year. None of these agreements contain purchase options. All agreements contain a termination clause providing for cancellation after a specified number of days written notice to lessors, but it is unlikely that the District will cancel any of the agreements prior to the expiration date.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

Construction Commitments

As of June 30, 2008, the District had the following commitments with respect to the unfinished capital projects:

	Remaining Construction Commitment	Expected Date of Completion
CAPITAL PROJECTS		
Castle Adult Carpet	\$ 377	Aug 2008
Community Day School (Sequoia)	934,065	Aug 2008
Trash Compactors	24,204	Aug 2008
Carpet Atwater, Livingston, Merced and Golden Valley High Schools	187,985	July 2008
Atwater High School Track and Field	1,274,830	Sept 2008
Atwater High School Painting	84,419	Aug 2008
Livingston High School Backflow Devices/Meters	148,018	July 2008
Atwater and Livingston High Schools Re-Roofing	85,390	Aug 2008
Merced, Golden Valley and Buhach Colony High Schools		
Stadium Lights	67,940	Nov 2008
Security Cameras	110,650	Aug 2008
Livingston High School and East Campus Ed. Center Painting	16,865	Aug 2008
Total	<u>\$ 2,934,743</u>	

NOTE 15 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWERS AUTHORITIES

The District is a member of the Self-Insured Schools of California (SISC III), the Self-Insured Schools of California (SISC II), and the Merced County Schools Insurance Group (MCSIG) public entity risk pools. The District pays an annual premium to each entity for its health, workers' compensation, and property liability coverage. The relationships between the District and pools are such that they are not component units of the District for financial reporting purposes.

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

The District has no appointed board members to the governing board of SISC III.

During the year ended June 30, 2008, the District made payment of \$9,029,025 to SISC III for medical, dental and vision insurance.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

The District has no appointed board members to the governing board of SISC II.

During the year ended June 30, 2008, the District made payment of \$587,987 to SISC II for property and liability insurance.

The District has appointed two board members to the governing board of MCSIG.

During the year ended June 30, 2008, the District made payment of \$1,019,679 to MCSIG for workers' compensation insurance.

REQUIRED SUPPLEMENTARY INFORMATION

This page left blank intentionally.

MERCED UNION HIGH SCHOOL DISTRICT

GENERAL FUND
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED JUNE 30, 2008

	Budgeted Amounts		Actual (GAAP Basis)	Variances -
	(GAAP Basis)			Favorable
	Original	Final		(Unfavorable) Final to Actual
REVENUES				
Revenue limit sources	\$69,814,548	\$68,411,422	\$ 68,523,679	\$ 112,257
Federal sources	7,826,759	8,242,572	6,963,409	(1,279,163)
Other state sources	10,913,017	13,372,447	13,580,908	208,461
Other local sources	1,670,300	2,009,199	2,374,845	365,646
Total Revenues ¹	<u>90,224,624</u>	<u>92,035,640</u>	<u>91,442,841</u>	<u>(592,799)</u>
EXPENDITURES				
Current				
Certificated Salaries	39,726,693	42,654,409	43,257,801	(603,392)
Classified salaries	12,832,979	13,497,795	13,907,675	(409,880)
Employee benefits	16,896,339	17,365,591	17,270,978	94,613
Books and supplies	9,678,373	10,931,661	6,488,251	4,443,410
Services and operating expenditures	8,524,154	8,493,623	8,051,456	442,167
Other outgo	214,527	438,323	493,516	(55,193)
Capital outlay	257,048	733,820	954,242	(220,422)
Debt service	45,858	20,194	20,194	-
Total Expenditures ¹	<u>88,175,971</u>	<u>94,135,416</u>	<u>90,444,113</u>	<u>3,691,303</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>2,048,653</u>	<u>(2,099,776)</u>	<u>998,728</u>	<u>3,098,504</u>
Other Financing Sources (Uses):				
Transfers in	503,000	503,000	201,749	(301,251)
Transfers out	(4,729,335)	(1,361,466)	(4,649,663)	(3,288,197)
Net Financing Sources (Uses)	<u>(4,226,335)</u>	<u>(858,466)</u>	<u>(4,447,914)</u>	<u>(3,589,448)</u>
NET CHANGE IN FUND BALANCES	<u>(2,177,682)</u>	<u>(2,958,242)</u>	<u>(3,449,186)</u>	<u>(490,944)</u>
Fund Balance - Beginning	<u>15,401,742</u>	<u>15,401,742</u>	<u>15,401,742</u>	<u>-</u>
Fund Balance - Ending	<u>\$13,224,060</u>	<u>\$12,443,500</u>	<u>\$ 11,952,556</u>	<u>\$ (490,944)</u>

¹ Excludes on behalf payments made to CalSTRS by the State of California.

MERCED UNION HIGH SCHOOL DISTRICT

SPECIAL RESERVE FUND FOR OTHER THAN CAPITAL OUTLAY
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED JUNE 30, 2007

	Budgeted Amounts (GAAP Basis)		Actual (GAAP Basis)	Variances - Favorable (Unfavorable)
	Original	Final		Final to Actual
	REVENUES			
Other local sources	\$ 500,000	\$ 1,211,803	\$ 799,697	\$ (412,106)
Total Revenues	<u>500,000</u>	<u>1,211,803</u>	<u>799,697</u>	<u>(412,106)</u>
EXPENDITURES				
Excess (Deficiency) of Revenues Over Expenditures	<u>500,000</u>	<u>1,211,803</u>	<u>799,697</u>	<u>(412,106)</u>
Other Financing Sources (Uses):				
Transfers in	1,293,387	-	-	-
Net Financing Sources (Uses)	<u>1,293,387</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>1,793,387</u>	<u>1,211,803</u>	<u>799,697</u>	<u>(412,106)</u>
Fund Balance - Beginning	<u>17,239,922</u>	<u>17,239,922</u>	<u>17,239,922</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 19,033,309</u>	<u>\$ 18,451,725</u>	<u>\$ 18,039,619</u>	<u>\$ (412,106)</u>

SUPPLEMENTARY INFORMATION

This page left blank intentionally.

MERCED UNION HIGH SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
Adult Education - Priority 1-3	84.002A	14508	\$ 137,752
Adult Education - Priority 5	84.002A	13978	19,163
Adult Education - English Literacy	84.002A	14109	64,280
No Child Left Behind			
Title I - Basic	84.010	14329	2,441,185
Title I - Program Improvement School Assistance	84.010	14417	5,953
Title I - Program Improvement Corrective Action	84.010A	14579	416,042
Title I - Program Improvement District Intervention	84.010	14581	38,798
Title II - Teacher Quality	84.367	14341	569,601
Title II - Administrator Training	84.367	14344	25,093
Title III - Immigrant Education	84.365	14346	26,202
Title III - LEP	84.365	10084	168,763
Title IV - Drug Free Schools	84.186	14347	19,013
Title V - Innovative Strategies	84.298A	13340	7,814
Gear Up Program	84.334A	10088	1,103,830
Special Education - State Grants			
Local Assistance	84.027	13379	1,770,376
Vocational Educational Grants			
Vocational and Applied Technology	84.048	13924	343,631
Postsecondary and Adult Literacy	84.048	13923	9,451
Total U.S. Department of Education			<u>7,166,947</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through CDE:			
Child Nutrition Cluster:			
Child Nutrition School Programs-Needy Breakfast	10.553	13526	488,265
Child Nutrition School Programs-Lunch	10.555	13391	1,965,569
Commodities - National Food Distribution Program	10.555	13391	142,532
Total Child Nutrition Cluster			<u>2,596,366</u>
Child Nutrition School Programs-Family Day Care	10.558	13665	12,495
Total U.S. Department of Agriculture			<u>2,608,861</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through CDE:			
Infant and Toddler Childcare	93.575	13942	2,758
Passed through California Department of Health Care Services:			
Medi-Cal	93.778	10013	27,108
Total U.S. Department of Agriculture			<u>29,866</u>
Total Federal Financial Assistance			<u>\$ 9,805,674</u>

See accompanying note to supplementary information.

MERCED UNION HIGH SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2008

ORGANIZATION

The Merced Union High School District was established in 1915 and comprises the area of approximately 625 square miles located in Merced County. The District operates six high schools, one continuation school, and one adult school. There were no boundary changes during the year.

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Dave Honey	President	2009
Ida M. Johnson	Vice President	2009
Mike Carpenter	Clerk	2011
Tim O'Neill	Member	2009
Sam Spangler	Member	2011

ADMINISTRATION

Robert H. Fore, Jr., Ph.D.	Superintendent
Diane C. Hockersmith, Ed.D	Deputy Superintendent
Yvonne Eagle	Director of Fiscal Services

See accompanying note to supplementary information.

MERCED UNION HIGH SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2008

	Second Period Report	Annual Report
SECONDARY		
Regular classes	9,439	9,378
Continuation education	292	286
Home and hospital	12	14
Special education	302	297
Community Day	15	14
Total Secondary	10,060	9,989
CLASSES FOR ADULTS		
Concurrently enrolled	45	45
Not concurrently enrolled	577	643
Total Classes for Adults	622	688
Grand Total	10,682	10,677
		Hours of Attendance
SUPPLEMENTAL HOURS		
K-12 core instruction		71,046
7-12 remedial instruction		334,204
Total Hours		405,250

See accompanying note to supplementary information.

MERCED UNION HIGH SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2008

Grade Level	1982-83	1986-87	2007-08	Number of Days		Status
	Actual Minutes	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Grades 9 - 12	61,195	64,800				
Grade 9			64,826	180	N/A	Complied
Grade 10			64,826	180	N/A	Complied
Grade 11			64,826	180	N/A	Complied
Grade 12			64,826	180	N/A	Complied

See accompanying note to supplementary information.

MERCED UNION HIGH SCHOOL DISTRICT

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

There were no adjustments to the Unaudited Actual Financial Report which required reconciliation to the audited financial statements at June 30, 2008.

See accompanying note to supplementary information.

MERCED UNION HIGH SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2008

	(Budget) 2009 ¹	2008 ⁴	2007 ⁴	2006 ⁴
GENERAL FUND				
Revenues	\$ 89,452,482	\$ 91,442,841	\$ 89,713,732	\$ 79,202,931
Other sources and transfers in	2,547,382	201,749	508,324	153,842
Total Revenues and Other Sources	91,999,864	91,644,590	90,222,056	79,356,773
Expenditures	91,685,288	90,444,113	81,622,169	72,344,159
Other uses and transfers out	1,500,000	4,649,663	5,004,379	3,805,000
Total Expenditures and Other Uses	93,185,288	95,093,776	86,626,548	76,149,159
INCREASE/(DECREASE) IN FUND BALANCE	\$ (1,185,424)	\$ (3,449,186)	\$ 3,595,508	\$ 3,207,614
ENDING FUND BALANCE	\$ 10,767,132	\$ 11,952,556	\$ 15,401,742	\$ 11,806,234
AVAILABLE RESERVES ²	\$ 2,795,559	\$ 2,852,813	\$ 2,598,797	\$ 2,284,475
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	3.00%	3.00%	3.00%	3.00%
LONG-TERM OBLIGATIONS	Not Available	\$ 23,642,779	\$ 24,300,192	\$ 24,714,744
AVERAGE DAILY ATTENDANCE AT P-2 ³	10,391	10,060	9,936	9,750

The General Fund balance has increased by \$146,322 over the past two years. The fiscal year 2008-09 budget projects a decrease of \$1,185,424 (9.9 percent). For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in two of the past three years but anticipates incurring an operating deficit during the 2008-09 fiscal year. Total long-term obligations have decreased by \$1,071,965 over the past two years.

Average daily attendance has increased by 310 over the past two years. Additional growth of 331 ADA is anticipated during fiscal year 2008-09.

¹ Budget 2009 is included for analytical purposes only and has not been subjected to audit.

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

³ Excludes Adult Education ADA.

⁴ On behalf payments have been excluded from this schedule.

See accompanying note to supplementary information.

MERCED UNION HIGH SCHOOL DISTRICT

EARLY RETIREMENT INCENTIVE PROGRAM FOR THE YEAR ENDED JUNE 30, 2008

The District has adopted an early retirement incentive program, pursuant to Education Code Sections 22714 and 44929, whereby the service credit to eligible employees is increased by two years. Eligible employees must have five or more years of service under the State Teachers' Retirement System and retire during a period of not more than 120 days or less than 60 days from the date of the formal action taken by the District.

Retiree Information

A total of 42 employees have retired in exchange for the additional two years of service credit.

Position Vacated	Employee Age	Service Credit	Retired Employee ¹		Replacement Employee ¹ (If Applicable)	
			Salary	Benefits	Salary	Benefits
Teacher	59	32	\$ 334,441	\$ 41,638	\$ 219,599	\$ 45,940
Teacher	58	28	334,441	41,638	219,599	45,940
Teacher	61	33	334,441	36,793	219,599	45,940
Teacher	57	29	349,454	38,445	219,599	45,940
Teacher	66	28	334,441	41,638	219,599	27,340
Teacher	56	30	351,499	38,670	219,599	45,940
Teacher	60	36	351,499	43,762	219,599	45,940
Teacher	61	17	302,718	37,688	219,599	42,065
Teacher	59	18	315,337	39,259	219,599	45,940
Teacher	61	38	359,878	39,592	219,599	40,515
Teacher	61	31	351,499	38,670	219,599	36,640
Teacher	62	29	323,866	35,630	219,599	35,090
Librarian	57	33	359,878	44,805	219,599	45,940
Teacher	59	35	325,912	35,855	219,599	45,940
Teacher	61	35	342,765	37,709	219,599	40,515
Teacher	58	32	334,441	36,793	219,599	45,940
Teacher	74	39	342,598	37,691	-	-
Counselor	63	41	359,878	44,805	219,599	28,890
Program Specialist	61	17	372,460	46,371	339,072	56,940
Teacher	62	37	351,499	38,670	219,599	32,765
Teacher	56	30	351,499	43,762	219,599	45,940
Teacher	61	33	349,311	43,489	219,599	38,965
Teacher	60	23	323,866	35,630	219,599	45,940
Teacher	65	19	334,441	41,638	219,599	27,340
Teacher	55	23	317,521	34,932	219,599	45,940
Teacher	62	34	325,912	40,576	219,599	31,990
Librarian	66	29	359,878	39,592	219,599	27,340
Teacher	60	35	334,441	36,793	219,599	45,940
Teacher	57	32	334,441	36,793	219,599	45,940

¹ Represents four years.

See accompanying note to supplementary information.

MERCED UNION HIGH SCHOOL DISTRICT

EARLY RETIREMENT INCENTIVE PROGRAM, Continued
FOR THE YEAR ENDED JUNE 30, 2008

Position Vacated	Employee Age	Service Credit	Retired Employee ¹		Replacement Employee ¹ (If Applicable)	
			Salary	Benefits	Salary	Benefits
Teacher	56	32	\$ 334,441	\$ 36,793	\$ 219,599	\$ 45,940
Teacher	62	34	334,441	36,793	219,599	34,315
Program Specialist	61	37	424,798	52,887	214,966	37,613
Teacher	60	34	351,499	38,670	219,599	45,940
Teacher	62	35	334,441	36,793	219,599	34,315
Teacher	58	33	334,441	36,793	219,599	45,940
Principal	62	34	473,905	59,001	406,712	52,186
Teacher	61	34	334,441	36,793	219,599	36,640
Teacher	59	34	334,441	41,638	219,599	45,940
Teacher	59	37	334,441	41,638	219,599	45,940
Teacher	57	32	351,499	38,670	219,599	45,940
Director	61	39	488,979	53,795	431,554	68,453
Superintendent	63	41	792,806	98,704	707,215	82,623
Total			<u>\$15,088,828</u>	<u>\$ 1,758,295</u>	<u>\$10,005,083</u>	<u>\$ 1,777,280</u>

¹ Represents four years.

Additional Costs

As a result of this early retirement incentive program, the District expects to incur \$2,743,422 in additional costs. The breakdown in additional costs is presented below:

Retirement costs	\$ 2,032,192
Postretirement health benefit costs	699,050
Administrative costs	12,180
Total	<u>\$ 2,743,422</u>

See accompanying note to supplementary information.

MERCED UNION HIGH SCHOOL DISTRICT

EXCESS SICK LEAVE

JUNE 30, 2008

Section 19833.5 (a)(3) or (a)(3)(b) Disclosure

Merced Union High School District does not provide more than 12 sick leave days in a school year to any CalSTRS member.

See accompanying note to supplementary information.

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2008

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

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

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

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

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

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

Early Retirement Incentive Program

This schedule provides information required by the Audit Guide for California K-12 Local Educational Agencies for those agencies adopting an early retirement incentive program pursuant to Education Code Sections 22714 and 44929.

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2008

Excess Sick Leave

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

SUPPLEMENTARY INFORMATION - UNAUDITED

This page left blank intentionally.

This page left blank intentionally.

MERCED UNION HIGH SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS
 COMBINING BALANCE SHEET - UNAUDITED
 JUNE 30, 2008

	Adult Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
ASSETS				
Deposits and investments	\$ 833,945	\$ 608,183	\$ 14,979	\$ 1,006,046
Receivables	149,982	3,973	446,728	-
Due from other funds	303	-	24,827	899
Stores inventories	-	-	107,930	-
Total Assets	<u>\$ 984,230</u>	<u>\$ 612,156</u>	<u>\$ 594,464</u>	<u>\$ 1,006,945</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 16,217	\$ 1,268	\$ 309,106	\$ 149,775
Due to other funds	73,417	13,229	44,021	-
Deferred revenue	9,479	2,720	-	-
Total Liabilities	<u>99,113</u>	<u>17,217</u>	<u>353,127</u>	<u>149,775</u>
Fund Balances:				
Reserved for:				
Revolving cash	-	-	600	-
Stores inventories	-	-	107,930	-
Legally restricted balance	885,117	594,939	-	-
Unreserved:				
Designated	-	-	-	857,170
Undesignated, reported in:				
Special revenue funds	-	-	132,807	-
Debt service funds	-	-	-	-
Total Fund Balances	<u>885,117</u>	<u>594,939</u>	<u>241,337</u>	<u>857,170</u>
Total Liabilities and Fund Balances	<u>\$ 984,230</u>	<u>\$ 612,156</u>	<u>\$ 594,464</u>	<u>\$ 1,006,945</u>

See accompanying note to supplementary information - unaudited.

MERCED UNION HIGH SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS
 COMBINING BALANCE SHEET - UNAUDITED, Continued
 JUNE 30, 2008

	Total Non-Major Governmental Funds
ASSETS	
Deposits and investments	\$ 13,938,587
Receivables	600,683
Due from other funds	4,071,889
Stores inventories	107,930
Total Assets	\$ 18,719,089
LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts payable	\$ 757,240
Due to other funds	131,101
Deferred revenue	12,199
Total Liabilities	900,540
Fund Balances:	
Reserved for:	
Revolving cash	600
Stores inventories	107,930
Legally restricted balance	1,480,056
Unreserved:	
Designated	13,474,694
Undesignated, reported in:	
Special revenue funds	132,807
Debt service funds	2,622,462
Total Fund Balances	17,818,549
Total Liabilities and Fund Balances	\$ 18,719,089

See accompanying note to supplementary information - unaudited.

MERCED UNION HIGH SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCE - UNAUDITED
 FOR THE YEAR ENDED JUNE 30, 2008

	Adult Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
REVENUES				
Federal sources	\$ 230,646	\$ 15,253	\$ 2,453,834	\$ -
Other state sources	1,759,989	555,196	251,436	409,598
Other local sources	430,942	33,057	888,308	53,018
Total Revenues	<u>2,421,577</u>	<u>603,506</u>	<u>3,593,578</u>	<u>462,616</u>
EXPENDITURES				
Current				
Instruction	1,404,796	248,023	-	-
Instruction-related activities:				
Supervision of instruction	126,487	-	-	-
School site administration	618,897	-	-	-
Pupil Services:				
Food services	-	13,884	3,463,719	-
All other pupil services	10,702	55,892	-	-
General administration:				
All other general administration	83,558	13,229	44,021	-
Plant services	128,887	687	9,187	386,464
Facility acquisition and construction	17,768	-	-	939,336
Debt service				
Principal	-	-	-	-
Interest and other	-	-	-	-
Total Expenditures	<u>2,391,095</u>	<u>331,715</u>	<u>3,516,927</u>	<u>1,325,800</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>30,482</u>	<u>271,791</u>	<u>76,651</u>	<u>(863,184)</u>
Other Financing Sources (Uses):				
Transfers in	-	-	200,000	449,663
Transfers out	-	-	(201,749)	-
Net Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(1,749)</u>	<u>449,663</u>
NET CHANGE IN FUND BALANCES	<u>30,482</u>	<u>271,791</u>	<u>74,902</u>	<u>(413,521)</u>
Fund Balance - Beginning	<u>854,635</u>	<u>323,148</u>	<u>166,435</u>	<u>1,270,691</u>
Fund Balance - Ending	<u>\$ 885,117</u>	<u>\$ 594,939</u>	<u>\$ 241,337</u>	<u>\$ 857,170</u>

See accompanying note to supplementary information - unaudited.

Pupil Transportation Fund	Building Fund	Capital Facilities Fund	County School Facilities Fund	Special Reserve Capital Fund	Bond Interest and Redemption Fund	Tax Override Fund
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	554,891	-	-	-
7,853	7,448	919,174	56,232	155,171	1,788,112	3,101
<u>7,853</u>	<u>7,448</u>	<u>919,174</u>	<u>611,123</u>	<u>155,171</u>	<u>1,788,112</u>	<u>3,101</u>
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	23,009	-	-	-	-
-	-	423,253	14,990	-	-	-
-	-	1,540,363	467,629	872,665	-	-
-	-	193,796	-	-	1,300,000	-
-	-	25,092	-	-	421,790	5,133
-	-	<u>2,205,513</u>	<u>482,619</u>	<u>872,665</u>	<u>1,721,790</u>	<u>5,133</u>
<u>7,853</u>	<u>7,448</u>	<u>(1,286,339)</u>	<u>128,504</u>	<u>(717,494)</u>	<u>66,322</u>	<u>(2,032)</u>
-	-	-	-	4,000,000	-	-
-	-	-	-	-	-	-
-	-	-	-	<u>4,000,000</u>	-	-
<u>7,853</u>	<u>7,448</u>	<u>(1,286,339)</u>	<u>128,504</u>	<u>3,282,506</u>	<u>66,322</u>	<u>(2,032)</u>
<u>169,281</u>	<u>160,569</u>	<u>5,334,263</u>	<u>1,171,727</u>	<u>3,641,712</u>	<u>2,488,774</u>	<u>69,398</u>
<u>\$ 177,134</u>	<u>\$ 168,017</u>	<u>\$ 4,047,924</u>	<u>\$ 1,300,231</u>	<u>\$ 6,924,218</u>	<u>\$ 2,555,096</u>	<u>\$ 67,366</u>

MERCED UNION HIGH SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCE - UNAUDITED, Continued
 FOR THE YEAR ENDED JUNE 30, 2008

	Total Non-Major Governmental Funds
REVENUES	
Federal sources	\$ 2,699,733
Other state sources	3,531,110
Other local sources	4,342,416
Total Revenues	10,573,259
EXPENDITURES	
Current	
Instruction	1,652,819
Instruction-related activities:	
Supervision of instruction	126,487
School site administration	618,897
Pupil Services:	
Food services	3,477,603
All other pupil services	66,594
General administration:	
All other general administration	163,817
Plant services	963,468
Facility acquisition and construction	3,837,761
Debt service	
Principal	1,493,796
Interest and other	452,015
Total Expenditures	12,853,257
Excess (Deficiency) of Revenues Over Expenditures	(2,279,998)
Other Financing Sources (Uses):	
Transfers in	4,649,663
Transfers out	(201,749)
Net Financing Sources (Uses)	4,447,914
NET CHANGE IN FUND BALANCES	2,167,916
Fund Balance - Beginning	15,650,633
Fund Balance - Ending	\$ 17,818,549

See accompanying note to supplementary information - unaudited.

MERCED UNION HIGH SCHOOL DISTRICT

PRIVATE-PURPOSE SCHOLARSHIP TRUST FUNDS
 COMBINING STATEMENT OF NET ASSETS - UNAUDITED
 JUNE 30, 2008

ASSETS	Scholarships
Deposits and investments	\$ 1,355,951
Total Cash and Assets	<u>\$ 1,355,951</u>
LIABILITIES	
NET ASSETS	
Reserved for scholarships	
Non-Expendable:	
Acker Scholarship	33,212
Alvernaz Scholarship	21,530
Beal Scholarship	11,282
Callister Scholarship	3,358
Cavaiani Scholarship	10,772
Chamberlain Scholarship	10,622
Landram Scholarship	28,272
Montano Scholarship	8,416
Mudd Scholarship	22,635
Okuda Scholarship	10,893
Roberts Scholarship	8,879
Roveto Scholarship	180,758
Weimer Scholarship	10,386
Expendable:	
AARP Scholarship	7,340
Barnes Scholarship	14,439
Bloss Scholarship	610,379
Broussard Scholarship	3,568
Brown Scholarship	32,981
Church Scholarship	12,264
Crookham Scholarship	3,100
Dallas Scholarship	19,522
Elam Scholarship	232
Fancher Scholarship	69,314
Fite Scholarship	624
Granado Scholarship	3,561
Jackson Scholarship	3,019
Joyner Scholarship	109
Kiwanis Scholarship	574
Lau Scholarship	7,000
Lockwood Scholarship	9,369
Martinelli Scholarship	281
McCollum Scholarship	3,282
McPherson-Hanson Scholarship	129
Mitchell Scholarship	145
Moberly Scholarship	5,868
Newhall Scholarship	31,885
Prince Scholarship	135,801
Purganan Scholarship	1,951
Rohm Scholarship	55
Sodexo Scholarship	264
Souza Scholarship	12,156
Yagi Scholarship	5,724
Total Net Assets Reserved for Scholarships	<u>\$ 1,355,951</u>

See accompanying note to supplementary information - unaudited.

MERCED UNION HIGH SCHOOL DISTRICT

PRIVATE-PURPOSE SCHOLARSHIP TRUST FUNDS
 COMBINING STATEMENT OF CHANGES IN NET ASSETS - UNAUDITED
 FOR THE YEAR ENDED JUNE 30, 2008

	Acker Scholarship	Alvernaz Scholarship	Beal Scholarship	Callister Scholarship	Cavaiani Scholarship
ADDITIONS					
Trust income	\$ 6,000	\$ -	\$ -	\$ -	\$ -
Interest income	1,151	920	449	126	379
Total Additions	<u>7,151</u>	<u>920</u>	<u>449</u>	<u>126</u>	<u>379</u>
DEDUCTIONS					
Scholarships awarded	1,125	600	-	-	500
Total Deductions	<u>1,125</u>	<u>600</u>	<u>-</u>	<u>-</u>	<u>500</u>
Change in Net Assets	6,026	320	449	126	(121)
Net Assets - Beginning	<u>27,186</u>	<u>21,210</u>	<u>10,833</u>	<u>3,232</u>	<u>10,893</u>
Net Assets - Ending	<u>\$ 33,212</u>	<u>\$ 21,530</u>	<u>\$ 11,282</u>	<u>\$ 3,358</u>	<u>\$ 10,772</u>

See accompanying note to supplementary information - unaudited.

<u>Chamberlain Scholarship</u>	<u>Landram Scholarship</u>	<u>Montano Scholarship</u>	<u>Mudd Scholarship</u>	<u>Okuda Scholarship</u>	<u>Roberts Scholarship</u>	<u>Roveto Scholarship</u>
\$ -	\$ -	\$ 655	\$ -	\$ -	\$ -	\$ 23,677
262	1,211	314	984	468	355	6,123
<u>262</u>	<u>1,211</u>	<u>969</u>	<u>984</u>	<u>468</u>	<u>355</u>	<u>29,800</u>
4,000	750	600	900	700	-	21,750
<u>4,000</u>	<u>750</u>	<u>600</u>	<u>900</u>	<u>700</u>	<u>-</u>	<u>21,750</u>
(3,738)	461	369	84	(232)	355	8,050
<u>14,360</u>	<u>27,811</u>	<u>8,047</u>	<u>22,551</u>	<u>11,125</u>	<u>8,524</u>	<u>172,708</u>
<u>\$ 10,622</u>	<u>\$ 28,272</u>	<u>\$ 8,416</u>	<u>\$ 22,635</u>	<u>\$ 10,893</u>	<u>\$ 8,879</u>	<u>\$ 180,758</u>

This page left blank intentionally.

MERCED UNION HIGH SCHOOL DISTRICT

PRIVATE-PURPOSE SCHOLARSHIP TRUST FUNDS
 COMBINING STATEMENT OF CHANGES IN NET ASSETS - UNAUDITED
 FOR THE YEAR ENDED JUNE 30, 2008

	Weimer Scholarship	Total Non-Expendable Scholarships
ADDITIONS		
Trust income	\$ 10,000	\$ 40,332
Interest income	381	13,123
Total Additions	<u>10,381</u>	<u>53,455</u>
DEDUCTIONS		
Scholarships awarded	500	31,425
Total Deductions	<u>500</u>	<u>31,425</u>
Change in Net Assets	9,881	22,030
Net Assets - Beginning	<u>505</u>	<u>338,985</u>
Net Assets - Ending	<u>\$ 10,386</u>	<u>\$ 361,015</u>

See accompanying note to supplementary information - unaudited.

MERCED UNION HIGH SCHOOL DISTRICT

PRIVATE-PURPOSE SCHOLARSHIP TRUST FUNDS
 COMBINING STATEMENT OF CHANGES IN NET ASSETS - UNAUDITED
 FOR THE YEAR ENDED JUNE 30, 2008

	AARP Scholarship	Barnes Scholarship	Bloss Scholarship	Broussard Scholarship	Brown Scholarship
ADDITIONS					
Trust income	\$ -	\$ 1,500	\$ 363,604	\$ 2,740	\$ 7,036
Interest income	286	537	16,947	56	670
Total Additions	<u>286</u>	<u>2,037</u>	<u>380,551</u>	<u>2,796</u>	<u>7,706</u>
DEDUCTIONS					
Scholarships awarded	750	1,000	317,721	-	8,500
Total Deductions	<u>750</u>	<u>1,000</u>	<u>317,721</u>	<u>-</u>	<u>8,500</u>
Change in Net Assets	(464)	1,037	62,830	2,796	(794)
Net Assets - Beginning	<u>7,803</u>	<u>13,402</u>	<u>547,550</u>	<u>772</u>	<u>33,775</u>
Net Assets - Ending	<u>\$ 7,339</u>	<u>\$ 14,439</u>	<u>\$ 610,380</u>	<u>\$ 3,568</u>	<u>\$ 32,981</u>

See accompanying note to supplementary information - unaudited.

<u>Church Scholarship</u>	<u>Crookham Scholarship</u>	<u>Dallas Scholarship</u>	<u>Elam Scholarship</u>	<u>Fancher Scholarship</u>	<u>Fite Scholarship</u>	<u>Granado Scholarship</u>
\$ -	\$ 200	\$ -	\$ -	\$ 42,900	\$ 75	\$ 512
508	120	813	3	1,223	16	178
<u>508</u>	<u>320</u>	<u>813</u>	<u>3</u>	<u>44,123</u>	<u>91</u>	<u>690</u>
500	500	2,000	200	40,235	750	4,500
<u>500</u>	<u>500</u>	<u>2,000</u>	<u>200</u>	<u>40,235</u>	<u>750</u>	<u>4,500</u>
8	(180)	(1,187)	(197)	3,888	(659)	(3,810)
<u>12,256</u>	<u>3,280</u>	<u>20,709</u>	<u>429</u>	<u>65,426</u>	<u>1,283</u>	<u>7,371</u>
<u>\$ 12,264</u>	<u>\$ 3,100</u>	<u>\$ 19,522</u>	<u>\$ 232</u>	<u>\$ 69,314</u>	<u>\$ 624</u>	<u>\$ 3,561</u>

MERCED UNION HIGH SCHOOL DISTRICT

PRIVATE-PURPOSE SCHOLARSHIP TRUST FUNDS
 COMBINING STATEMENT OF CHANGES IN NET ASSETS - UNAUDITED
 FOR THE YEAR ENDED JUNE 30, 2008

	Jackson Scholarship	Joyner Scholarship	Kiwanis Scholarship	Lau Scholarship	Lockwood Scholarship
ADDITIONS					
Trust income	\$ -	\$ -	\$ -	\$ -	\$ -
Interest income	124	-	16	161	386
Total Additions	<u>124</u>	<u>-</u>	<u>16</u>	<u>161</u>	<u>386</u>
DEDUCTIONS					
Scholarships awarded	200	-	300	1,000	-
Total Deductions	<u>200</u>	<u>-</u>	<u>300</u>	<u>1,000</u>	<u>-</u>
Change in Net Assets	(76)	-	(284)	(839)	386
Net Assets - Beginning	<u>3,095</u>	<u>109</u>	<u>858</u>	<u>7,839</u>	<u>8,983</u>
Net Assets - Ending	<u>\$ 3,019</u>	<u>\$ 109</u>	<u>\$ 574</u>	<u>\$ 7,000</u>	<u>\$ 9,369</u>

See accompanying note to supplementary information - unaudited.

<u>Martinelli Scholarship</u>	<u>McCollum Scholarship</u>	<u>McPherson- Hanson Scholarship</u>	<u>Mitchell Scholarship</u>	<u>Moberly Scholarship</u>	<u>Newhall Scholarship</u>	<u>Prince Scholarship</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
9	112	2	2	250	1,259	5,801
<u>9</u>	<u>112</u>	<u>2</u>	<u>2</u>	<u>250</u>	<u>1,259</u>	<u>5,801</u>
250	-	-	200	200	1,250	12,250
<u>250</u>	<u>-</u>	<u>-</u>	<u>200</u>	<u>200</u>	<u>1,250</u>	<u>12,250</u>
(241)	112	2	(198)	50	9	(6,449)
<u>522</u>	<u>3,170</u>	<u>127</u>	<u>343</u>	<u>5,818</u>	<u>31,876</u>	<u>142,250</u>
<u>\$ 281</u>	<u>\$ 3,282</u>	<u>\$ 129</u>	<u>\$ 145</u>	<u>\$ 5,868</u>	<u>\$ 31,885</u>	<u>\$ 135,801</u>

MERCED UNION HIGH SCHOOL DISTRICT

PRIVATE-PURPOSE SCHOLARSHIP TRUST FUNDS
 COMBINING STATEMENT OF CHANGES IN NET ASSETS - UNAUDITED
 FOR THE YEAR ENDED JUNE 30, 2008

	<u>Purganan Scholarship</u>	<u>Rohm Scholarship</u>	<u>Sodexho Scholarship</u>	<u>Souza Scholarship</u>	<u>Yagi Scholarship</u>
ADDITIONS					
Trust income	\$ -	\$ -	\$ -	\$ 50	\$ -
Interest income	26	1	-	500	221
Total Additions	<u>26</u>	<u>1</u>	<u>-</u>	<u>550</u>	<u>221</u>
DEDUCTIONS					
Scholarships awarded	-	-	500	250	500
Total Deductions	<u>-</u>	<u>-</u>	<u>500</u>	<u>250</u>	<u>500</u>
Change in Net Assets	26	1	(500)	300	(279)
Net Assets - Beginning	<u>1,925</u>	<u>54</u>	<u>764</u>	<u>11,856</u>	<u>6,003</u>
Net Assets - Ending	<u>\$ 1,951</u>	<u>\$ 55</u>	<u>\$ 264</u>	<u>\$ 12,156</u>	<u>\$ 5,724</u>

See accompanying note to supplementary information - unaudited.

<u>Total Expendable Scholarships</u>	<u>Total (Memorandum Only)</u>
\$ 418,617	\$ 458,949
<u>30,227</u>	<u>43,350</u>
<u>448,844</u>	<u>502,299</u>
<u>393,556</u>	<u>424,981</u>
<u>393,556</u>	<u>424,981</u>
55,288	77,318
<u>939,648</u>	<u>1,278,633</u>
<u>\$ 994,936</u>	<u>\$ 1,355,951</u>

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION - UNAUDITED JUNE 30, 2008

NOTE 1 - PURPOSE OF SCHEDULES

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

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

Private Purpose Scholarship Trust Funds – Combining Statement of Net Assets and Combining Statement of Changes in Net Assets - Unaudited

These statements are included to provide additional information regarding the individual scholarship trust funds. Following is a description of the purpose and requirements for each of the scholarships.

Jim Acker Memorial Scholarship

This scholarship has been established in honor of Jim Acker who graduated from Merced High School in 1971, by the Jim Acker Memorial Scholarship Committee, to provide a scholarship for graduating seniors from Merced High School attending a two or four year college. Recipient of this scholarship will be selected by the Jim Acker Memorial Scholarship Committee based on citizenship, GPA of 3.0 or higher and participating in athletics.

John L. Alvernaz, Jr. Scholarship

The scholarship is established from the Estate of John L. Alvernaz, Jr. to be awarded to students from Merced Union High School District. No other criteria has been specified for determining eligibility for this scholarship.

Steven O. Beal Memorial Scholarship

This scholarship is established in the memory of Steven O. Beal, a former teacher of Industrial Arts in the Merced Union High School District, for eligible Industrial Arts Drafting students planning to attend a two or four-year accredited college or university. If no Industrial Arts Drafting students apply, the scholarship may be granted to any other deserving Industrial Arts student. The student must have a cumulative GPA of no less than 2.75 for the first seven semesters of high school. The awards are to be in increments of \$500 from any amount over the \$10,000 principle. This scholarship is non-renewable.

Eldon J. Callister Memorial Scholarship

This scholarship is established in honor of Eldon J. Callister to provide a scholarship each year to a student of Merced Union High School District who enrolls as a full time student at either Brigham Young University or Utah State University. An award is given annually if a graduating senior qualifies.

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION - UNAUDITED JUNE 30, 2008

Ugo Cavaiani Scholarship

This scholarship has been set up per the request of Ugo Cavaiani to award scholarships to Livingston High School graduates aspiring to be nurses.

Chamberlain Scholarship

This scholarship was established by Naomi R. Chamberlain to provide annual scholarships to worthy graduates of Merced High School District. The following requirements are to be met by the District in managing the Chamberlain Scholarship:

- The principal shall remain intact in the Trust and the income only would be distributed to worthy students.
- Scholarships are to be awarded once per year in early May or in the spring semester.
- The number of scholarships is dependent upon the amount of interest or income generated from the fund.
- Approximately one-half of the scholarships are to be awarded to students whose goal is to attend a two-year junior or community college and the remaining awarded to students whose goal is to attend a four-year college.
- Scholarships are to be awarded to students with a 3.0 GPA or better during their attendance at Merced High School.
- Consideration should be given to provide for automatic renewal for any student in continuous enrollment, up to four years at any college or university of his or her choice, as long as the student maintains a 3.0 or higher GPA.

Hugh K. Landram Memorial Scholarship

This scholarship fund is established in honor of Hugh K. Landram to provide for scholarships to be awarded to deserving students for their future education in an accredited college or university in the State of California.

John P. Montano Memorial Scholarship

This Scholarship is established in honor of John P. Montano, a former Physical Education teacher and coach in the Merced Union High School District. It provides scholarships to eligible students who competed in a varsity sport for a minimum of one season and are planning to attend a two- or four-year college or an accredited vocational school. The student must have a cumulative GPA of no less than 2.5 for the first seven semesters of high school. The awards are to be in increments of \$600 from any amount over the \$3,255 principal. This scholarship is non-renewable.

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION - UNAUDITED JUNE 30, 2008

Jay Leroy Mudd Scholarship

This scholarship is established from the Estate of Jay Leroy Mudd. The corpus shall not be impaired, but the interest shall be paid, by way of scholarships, to students from Merced Union High School for the purpose of obtaining a college education. A board consisting of the President of Merced City Chamber of Commerce, the President of Merced Rotary club, the Senior Warden of F. & A.M. Lodge #99 of Merced, and the Master of F. & A.M. Lodge #749 of Merced shall have the exclusive right to select the recipients.

Okuda Memorial Scholarship

This scholarship has been established by Franklin Okuda in memory of his son Calvin Okuda. The scholarship has a balance of over \$10,000. This is a perpetual scholarship with only the interest being awarded in the form of scholarships. The interest earned shall be split equally for two scholarships, to one male and one female graduate from Livingston High School that meet the following criteria.

- Scholarships are to be awarded to students with a 2.0 GPA or higher.
- Scholarships are to be awarded to students who are enrolled at a vocational school, community college, state college, or university.
- Scholarships are to be awarded to students who otherwise would not receive an award.

Donna Roberts Scholarship

This scholarship has been set up per the request of Eugene E. Roberts to provide a scholarship each year for a graduating senior of Yosemite High School intending to enroll in a community college the subsequent fall semester. Recipient of this scholarship shall be selected by Mr. Ron DeWong or his successor under criteria established by Mr. Eugene E. Roberts.

Rebecca Starr Roveto Scholarship

This scholarship is established to provide scholarships for graduating seniors from Atwater High School or any new high school serving Atwater students who plan to attend an accredited four year college or university in increments of \$1,000 beginning in 1998. The awards to be given will be selected by the scholarship committee designated by the Merced Union High School District to applicants who have a minimum of 3.3 GPA (4.0 scale).

Walter Weimer Family/Livingston Rotary International Scholarship

This scholarship has been established in honor of Walter Weimer, per the request of the Weimer Family, to provide a scholarship to a Livingston High School senior. Applicant to meet the following criteria: strong math and science or agricultural science, two or four year college (UC Merced preferred but no required), well-rounded student who participated in activities. Livingston High School site committee selects recipient. Award to be \$500 (non-renewable).

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION - UNAUDITED JUNE 30, 2008

AARP Scholarship

This scholarship was established by the Atwater AARP Chapter #2194 in the amount of \$9,000 to be distributed at the rate of \$1,000 per year for four scholarships, \$250 each, until the \$9,000 with its earnings has been depleted. The scholarships are to be awarded to two academic majors and two vocational majors for studies accordingly in college. The Atwater High School Scholarship Committee selects several possible academic and vocational recipients from the pool of Atwater High School Scholarship applicants and refers the names to AARP Chapter #2194 for screening and selection.

Richard Barnes Memorial Scholarship

This scholarship was established by JoAnna Browning in the memory of Richard Barnes to provide scholarships for eligible student athletes of Atwater High School who graduate with a minimum 3.0 GPA. There will be one award recipient each year receiving \$500 if attending a two year college or \$1,000 if attending a four year college.

Christine Bloss Memorial Scholarship

This scholarship is established in honor of Christine Bloss to provide scholarships for graduating seniors. It is awarded annually to students who attend a two-year or four-year college and are graduates of Merced High School, Atwater, Livingston, Yosemite, or the Adult School. The total amount awarded annually is determined by the Board of Trustees based on earnings from trust account and time certificates. Each campus receives a stipulated amount based on the number of graduates on a percentage basis. Each school determines the number of recipients and the amount of each award. Students must attend an accredited California college or university.

Kiara Broussard Culinary Arts Scholarship

This scholarship has been established in honor of Kiara Broussard, per the request of Jennifer Broussard, to provide a scholarship for a graduating senior of Golden Valley High School or Buhach Colony/Merced High School if Golden Valley has no candidates. Applicant majoring in Culinary Arts (San Francisco Culinary Academy preferred). Recipient will be selected by family of Kiara Broussard. No required activities, minimum GPA 3.0, \$500 award (amount may change).

Brown Memorial Scholarship

This scholarship was established to provide scholarships to Merced and Golden Valley High School graduating seniors planning to attend a two or four-year accredited college or university in increments of \$1,000 per year for four years or completion of undergraduate degree. Scholarships will be awarded to students with a 3.3 cumulative GPA. College students must have a cumulative 2.5 GPA to remain eligible.

Church Scholarship

This scholarship has been established by Mr. and Mrs. Dan Church. The Scholarship Fund has accumulated approximately \$10,000. The interest accrued each year will be awarded to a graduating Golden Valley High School male or female student athlete who has participated in at least one varsity sport and plans to attend Merced College.

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION - UNAUDITED JUNE 30, 2008

Sybil Nye Crookham Memorial Scholarship

This scholarship is established in honor of Sybil Nye Crookham. The scholarship will be awarded to seniors at either Atwater or Buhach Colony High Schools with a GPA of at least 3.0. The \$250 scholarship will be awarded to one senior at each high school.

Dallas Athletic Scholarship (Heart Award)

This scholarship has been established at Atwater and Buhach Colony High Schools in the amounts of \$12,500 each. The \$1,000 scholarship will be awarded to a female athlete at each high school with a minimum GPA of 2.5 who has participated in athletics for a minimum of two years who will be enrolled in a two or four year college or vocational school.

Bill Elam Memorial Scholarship

This scholarship has been established in honor of Bill Elam by the Livingston Rotary Club and friends of Bill Elam for the purpose of awarding an annual scholarship to a graduating senior from Livingston High School. No other criteria has been specified for the eligibility requirements. The recipient of this scholarship will be selected by Earlane Elam and the Livingston High School Scholarship Committee.

Fred B. Fancher Scholarship

This scholarship is established in honor of Fred B. Fancher. Scholarships are granted annually to qualified graduates of the Merced Union High School District who have demonstrated an interest in the broad field of agriculture and who wish to pursue a course of study, directly or indirectly, related to the field of agriculture. Students must attend either a two-year or a four-year accredited California university or college. The amount awarded each year depends upon the availability of funds. Applicants may reapply each year and receive a scholarship for up to a maximum of four years.

Carter Fite Memorial Scholarship

As of our audit date this scholarship did not have any restrictions or guidelines as to its use.

Mario Granado Memorial Scholarship

This scholarship has been established in honor of Mario Granado, a former employee of Merced Union High School District, per the request of Cynthia Granado, to provide non-renewable scholarships to Livingston High School, Atwater High School, Buhach Colony High School, Merced High School and Golden Valley High School seniors with 2.0+ GPA. Applicants to meet any of the following criteria: pursuing a vocational program (priority), overcome obstacles or shown improvement, come from large family, participate in baseball or softball, complete 200+ hours of community service or plays a musical instrument. Awards to be \$1,000 at each campus.

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION - UNAUDITED JUNE 30, 2008

Betty B. Jackson Scholarship

This scholarship has been established in honor of Betty B. Jackson, per the request of Lloyd Jackson, to provide a scholarship for the first year of college for a graduating senior of Merced High School enrolling in a junior college. Recipient of this scholarship shall be selected by the Merced High School Scholarship Committee under the criteria established by Mr. Lloyd Jackson as follows:

- Financial need as determined by the Scholarship Committee.
- Minimum GPA of 2.0 based on last 5 semesters of high school grades.
- Selection cannot be made until after the Bloss and Smith Scholarships are selected.

Joyner Scholarship

This scholarship was established by the California Association of School Business Officials to be given in the name of Lydia L. Lobdell, in the amount of \$500 each year for ten years. The recipient will be selected from one high school in the District on a rotating basis. The selection will be made by a committee of business teachers at the site. The scholarship may be awarded without qualification to any graduate in need of assistance to continue their education.

Livingston Kiwanis Club Scholarship

This scholarship has been established by the Kiwanis Club of Livingston-Delhi for the purposes of awarding a yearly academic scholarship to a Livingston High School Student, beginning in 1993. The criteria is to be established by the Livingston High School Scholarship Committee.

Karina Lau Memorial Scholarship

This scholarship is established in honor of Karina Lau. The scholarship is to be awarded to a senior at Livingston High School who was involved in the music or theater program and will enroll in a two or four year college with a music or theater related degree. The scholarship will be \$1,000 a year for up to four years as long as the student continues with a music or theater major.

Lester L. Lockwood Memorial Scholarship

This scholarship has been established in honor of Lester L. Lockwood with the approval of Janelle Lockwood. The Lester Lockwood Memorial Scholarship will be awarded each year to a graduating senior from Yosemite High School who plans to continue his/her education at Merced College, or the previous year's recipient who is currently enrolled at Merced College and has reapplied for the scholarship. The scholarship may be renewed one time only in the manner described above. A current college student who is reapplying will be given precedence. In the event there is no reapplication, a graduating senior from Yosemite High School will be chosen by the administration and staff at Yosemite High School.

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION - UNAUDITED JUNE 30, 2008

Angelo Martinelli Memorial Scholarship

This scholarship is established in honor of Angelo Martinelli to provide scholarships to eligible Merced High School graduates. Scholarships in the amount of \$250 will be awarded to students who have received a cumulative GPA of at least 2.75 in high school, the student may attend an accredited two-year, four-year, or a vocational school, and the student will be approved by the Martinelli family. This scholarship is non-renewable.

Karen McCollum Memorial Scholarship

This scholarship was established in honor of Karen McCollum to provide a scholarship to an eligible student who attended the GED program at the Merced Adult School and is enrolling with a GPA of 2.0 or higher and at least six or more units of work at Merced Community College. The \$500 scholarship will be disbursed in two separate payments annually (August and December).

Lucy McPherson-Hanson Memorial Scholarship

This scholarship was established to provide annual scholarships preferably to an African American student, or other minority student, graduating from Merced High School with a minimum grade point average of 2.5. This scholarship is non-renewable.

Herbert Mitchell Memorial Scholarship

This scholarship has been established in honor of Herbert Mitchell by his widow, Mrs. Winnie Mitchell, to provide a \$200 scholarship to a deserving graduate of Merced High School. The recipient of this scholarship shall be selected by the Merced High School Scholarship Committee under the criteria established by Mrs. Winnie Mitchell as follows:

- Financial need as determined by the Scholarship Committee.
- Must be a business student.
- Must be enrolling in a local community college.
- No minimum GPA requirements.

Sanford Moberly Memorial Scholarship

This scholarship is established in memory of Sanford Moberly, an art teacher at Livingston High School. Each year an art student, selected by the Livingston High School Art Department, receives a \$200 award from this scholarship.

Henry Mayo Newhall Scholarship

This scholarship was established by a gift from the Henry Mayo Foundation. A scholarship in the amount of \$8,000 is awarded to the outstanding graduate of Merced High School who will attend a four-year college. Applicant selection criteria is the same as for the Bloss Scholarship.

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION - UNAUDITED JUNE 30, 2008

Clarence Earl Prince Scholarship

This scholarship is established from the Estate of Clarence Earl Prince to provide for scholarships to be awarded to deserving students of Merced Union High School who intend to attend college during the next academic year immediately following high school graduation. The Superintendent of the Merced Union High School District, together with the Board of Directors of Merced Rotary Club shall choose applicants and set the standards by which the applicants will be chosen. The criteria can be changed from one year to the next.

Anastacia Purganan Memorial Scholarship

This scholarship has been established in honor of Anastacia Purganan to provide scholarships to eligible Livingston High School graduates, who intend to attend Merced College for two years on a full time basis in pursuing a career as a teacher or vocational program. Two scholarships, in the amount of \$1,000 each, will be awarded to approved students with a cumulative GPA between 2.0 to 3.0 in high school.

Ryan M. Rohm Memorial Scholarship

This scholarship is established in honor of Ryan Rohm to provide scholarships to eligible Golden Valley High School graduates. Three scholarships, in the amount of \$1,000 (\$500 per year for two years), will be awarded to approved students, to be eligible a student must have received a cumulative GPA of at least 3.0 in high school. This scholarship is non-renewable.

Sodexo Scholarship

Sodexo School Services has established this scholarship which will total two \$500 scholarships a year for students wishing to continue their education beyond high school in a vocational area. The scholarship will be rotated between all District high schools beginning with Buhach Colony and Golden Valley. The scholarship will be awarded to one student at each of the two high schools with at least a 2.5 GPA.

Crystal Souza Memorial Scholarship

This scholarship is established in honor of Crystal Souza. The scholarship is to be awarded to seniors at Livingston High School and will total \$250 a year for two students. Each \$250 scholarship will be awarded to one agriculture major and one nursing major. The students must be attending Merced College.

George Yagi Memorial Scholarship

This scholarship has been established in honor of George Yagi, per the request of Floy Yagi, to provide a scholarship to a Livingston High School senior who intends to attend a two or four year college. Applicant to meet the following criteria: major in agriculture or related field, participation in FFA, minimum GPA of 3.0. Livingston High School site committee selects recipient. Award to be \$1000 for a four year college or \$500 for a two year college.

This page left blank intentionally.

INDEPENDENT AUDITORS' REPORTS



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

Governing Board
Merced Union High School District
Merced, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Merced Union High School District as of and for the year ended June 30, 2008, which collectively comprise Merced Union High School District's basic financial statements and have issued our report thereon dated November 19, 2008. 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 Merced Union High School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Merced Union High School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Merced Union High School District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of Merced Union High School District in a separate letter dated November 19, 2008.

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, and Federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Vautournek, Orsine, Day & Co., LLP

Fresno, California
November 19, 2008



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

Governing Board
Merced Union High School District
Merced, California

Compliance

We have audited the compliance of Merced Union High 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, 2008. Merced Union High 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 Merced Union High School District's management. Our responsibility is to express an opinion on Merced Union High 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 Merced Union High 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 Merced Union High School District's compliance with those requirements.

In our opinion, Merced Union High 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, 2008.

Internal Control Over Compliance

The management of Merced Union High 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 Merced Union High School District's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Merced Union High School District's internal control over compliance.

A control deficiency in a district's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a Federal program on a timely basis. *A significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

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

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

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, and Federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Vavrinek, Okune, Day & Co., LLP

Fresno, California
November 19, 2008



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Governing Board
 Merced Union High School District
 Merced, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Merced Union High School District as of and for the year ended June 30, 2008, and have issued our report thereon dated November 19, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2007-08*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Attendance Accounting:		
Attendance reporting	8	Yes
Kindergarten continuance	3	Not Applicable
Independent study	23	Yes
Continuation education	10	Yes
Adult education	9	Yes
Regional occupational centers and programs	6	Not Applicable
Instructional Time:		
School districts	6	Yes
County offices of education	3	Not Applicable
Community day schools	9	No (see below)
Morgan-Hart Class Size Reduction	7	Yes
Instructional Materials:		
General requirements	12	Yes
K-8 only	1	Not Applicable
9-12 only	1	Yes
Ratios of Administrative Employees to Teachers	1	Yes

	Procedures in Audit Guide	Procedures Performed
Classroom Teacher Salaries	1	Yes
Early retirement incentive	4	Yes
Gann limit calculation	1	Yes
School Construction Funds:		
School district bonds	3	No (see below)
State school facilities funds	1	Yes
Excess sick leave	2	Yes
Notice of right to elect California State Teachers Retirement System (CalSTRS) membership	1	Yes
Proposition 20 Lottery Funds (Cardenas Textbook Act of 2000)	2	Yes
State Lottery Funds (California State Lottery Act of 1984)	2	Yes
California School Age Families Education (Cal-SAFE) Program	3	Not Applicable
School Accountability Report Card	3	Yes
Mathematics and Reading Professional Development	4	Yes
Class Size Reduction Program (including in Charter Schools):		
General requirements	7	Not Applicable
Option one classes	3	Not Applicable
Option two classes	4	Not Applicable
District or charter schools with only one school serving K-3	4	Not Applicable
After School Education and Safety Program		
General requirements	4	Not Applicable
After school	4	Not Applicable
Before school	5	Not Applicable
Charter Schools:		
Contemporaneous records of attendance	1	Not Applicable
Mode of instruction	1	Not Applicable
Non classroom-based instruction/independent study	15	Not Applicable
Determination of funding for non classroom-based instruction	3	Not Applicable
Annual instruction minutes classroom based	3	Not Applicable

We did not perform testing for community day school because the ADA was below the State recommended testing level. Additionally, we did not perform testing for school district bonds because there were no expenditures from the fund.

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

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

Vasquez, Orine, Day & Co., LLP

Fresno, California
November 19, 2008

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

This page left blank intentionally.

MERCED UNION HIGH SCHOOL DISTRICT

**SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2008**

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

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

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>84.048</u>	<u>Vocational Education Grants</u>
<u>84.334A</u>	<u>Gear Up Program</u>
<u>10.553, 10.555</u>	<u>Child Nutrition Cluster</u>

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

STATE AWARDS

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

MERCED UNION HIGH SCHOOL DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008**

None reported.

MERCED UNION HIGH SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008**

None reported.

MERCED UNION HIGH SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008**

None reported.

MERCED UNION HIGH SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2008

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.

State Award Findings

DISTRICT OFFICE

2007-1 10000

Attendance Reporting

Finding

We noted the following with respect to attendance reporting:
The Annual Report of Attendance (Annual) was incorrectly stated on line A-10 at 5.97 ADA. The line should have been reported at 6.78 ADA. The reason for the error is that the preparer of the form had a formula error on the spreadsheet that was being used to sum all of the Special Ed – Nonpublic, Nonsectarian Schools ADA. There is no fiscal impact for the change to the Special Ed ADA since Special Ed is funded based on the Second Period Report of Attendance (P-2).

Recommendation

The District should revise the Annual to reflect the following:
Line A-10 6.78 ADA

Current Status

Implemented.

2007-2 40000

Teacher Credentials

Finding

Teachers who teach classes in which English Language Learners (ELL) are enrolled are required to have a teaching credential that specifically allows them to teach those students. During our testing of the teacher credentials, we noted one teacher who had more than 20 percent ELLs, but did not have the required credential to teach those students. There is no fiscal impact for the teacher not having the required credential.

Recommendation

The District should be in the process of getting all of its teachers into compliance in order to comply with certification requirements in a timely fashion.

MERCED UNION HIGH SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008**

Current Status

Implemented.

**MERCED UNION
HIGH SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2009

MERCED UNION HIGH SCHOOL DISTRICT

OF MERCED COUNTY

MERCED, CALIFORNIA

JUNE 30, 2009

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Ida M. Johnson	President	2009
Mike Carpenter	Vice President	2011
Sam Spangler	Clerk	2011
Dave Honey	Member	2009
Tim O'Neill	Member	2009

ADMINISTRATION

V. Scott Scambray	Superintendent
Diane C. Hockersmith, Ed.D	Deputy Superintendent
Yvonne Eagle	Director of Fiscal Services

MERCED UNION HIGH SCHOOL DISTRICT

TABLE OF CONTENTS JUNE 30, 2009

FINANCIAL SECTION

Independent Auditors' Report	2
Management's Discussion and Analysis	4
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets	17
Statement of Activities	18
Fund Financial Statements	
Governmental Funds - Balance Sheet	19
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	20
Governmental Funds - Statement of Revenues, Expenditures, and Changes in Fund Balance	21
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the District-Wide Statement of Activities	22
Fiduciary Funds - Statement of Net Assets	23
Fiduciary Funds - Statement of Changes in Net Assets	24
Notes to Financial Statements	25

REQUIRED SUPPLEMENTARY INFORMATION

General Fund - Budgetary Comparison Schedule	53
Special Reserve Fund for Other than Capital Outlay - Budgetary Comparison	54
Schedule of Other Postemployment Benefits (OPEB) Funding Progress	55

SUPPLEMENTARY INFORMATION

Schedule of Expenditures of Federal Awards	57
Local Education Agency Organization Structure	59
Schedule of Average Daily Attendance	60
Schedule of Instructional Time	61
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements	62
Schedule of Financial Trends and Analysis	63
Combining Statements - Non-Major Governmental Funds	
Combining Balance Sheet	64
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance	66
Note to Supplementary Information	68

SUPPLEMENTARY INFORMATION - UNAUDITED

Combining Statements - Private Purpose Scholarship Trust Funds	
Combining Statement of Net Assets - Unaudited	71
Combining Statement of Changes in Net Assets - Unaudited	72
Note to Unaudited Supplementary Information - Unaudited	77

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 Government Auditing Standards	87
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	89
Report on State Compliance	91

MERCED UNION HIGH SCHOOL DISTRICT

TABLE OF CONTENTS JUNE 30, 2009

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of Auditors' Results	94
Financial Statement Findings	95
Federal Award Findings and Questioned Costs	96
State Award Findings and Questioned Costs	97
Summary Schedule of Prior Audit Findings	98

FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Board of Trustees
Merced Union High School District
Merced, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Merced Union High School District (the "District") as of and for the year ended June 30, 2009, 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 2008-09, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Merced Union High School District, as of June 30, 2009, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in the Notes to the basic financial statements, the accompanying financial statements reflect certain changes required as a result of the implementation of GASB Statement No. 45 for the year ended June 30, 2009.

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

In accordance with Government Auditing Standards, we have also issued our report dated December 2, 2009, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in conjunction with this report in considering the results of our audit.

The required supplementary information, such as management's discussion and analysis on pages 4 through 16 and budgetary comparison and other postemployment information on pages 53 through 55, is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion.

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

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

Vannick, Truini, Day & Co., LLP

Fresno, California
December 2, 2009



Superintendent
V. Scott Scambray

Deputy Superintendent
Diane C. Hockersmith, Ed.D.

Assistant Superintendents
Raynee J. Daley, Ed.D.
George Sziraki, Jr.

Board of Trustees
Mike Carpenter
Dave Honey
Ida M. Johnson
Tim O'Neill
Sam Spangler

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Merced Union High School District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2009. 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 Merced Union School District (the District) 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 (including capital assets) as well as all liabilities (including long-term obligations). Additionally, certain eliminations have occurred as prescribed by the statement in regards to interfund activity, payables and receivables.

The *Fund Financial Statements* include statements for each of the two categories of activities: governmental and fiduciary.

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

The *Fiduciary Activities* are presented in the trust and agency funds, which focus reporting on net assets.

The Primary unit of the government is the Merced Union High School District.

MERCED UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2009

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Assets and the Statement of Activities

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

These two statements report the District's net assets and changes in them. Net assets are the difference between assets and liabilities, which is 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. Other factors to consider are changes in the District's property tax base and the condition of the District's facilities.

The relationship between revenues and expenses is the District's *operating results*. Since the governing 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 an important component in this evaluation.

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

Governmental Activities - The District's services are reported in this category. This includes the education of grade nine through grade twelve students, adult education students, the operation of child development activities, 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, 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.

Governmental Funds - All 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.

MERCED UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2009

THE DISTRICT AS TRUSTEE

Reporting the Merced High School 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, scholarships, and deferred compensation. The District's fiduciary activities are reported in the *Statements of Fiduciary Net Assets* and the *Statement of Changes in Fund 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 total net assets were \$101.0 million for the fiscal year ended June 30, 2009, and \$101.9 million for the fiscal year ended June 30, 2008; a decrease of \$0.9 million. Restricted net assets, which totaled \$34.7 million 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. The analysis below focuses on the net assets (Table 1) and change in net assets (Table 2) of the District's governmental activities for the past two fiscal years.

Table 1

(Amounts in millions)	School District Activities		
	2009	2008	Variance
Current and other assets	\$ 72.5	\$ 54.3	\$ 18.2
Capital assets	84.3	77.7	6.6
Total Assets	156.8	132.0	24.8
Current liabilities	7.2	6.5	0.7
Long-term obligations	48.6	23.6	25.0
Total Liabilities	55.8	30.1	25.7
Net assets			
Invested in capital assets, net of related debt	59.0	54.2	4.8
Restricted	34.7	40.2	(5.5)
Unrestricted	7.3	7.5	(0.2)
Total Net Assets	\$ 101.0	\$ 101.9	\$ (0.9)

The \$7.3 million in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations.

MERCED UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2009

Changes in Net Assets

The results of this year's operations for the District as a whole are reported in the *Statement of Activities*. Table 2 takes the information from the Statement, rounds off the numbers, and rearranges them slightly so you can see our total revenues for the past two years along with the variance between the two fiscal years.

Table 2

(Amounts in millions)	School District Activities		
	2009	2008	Variance
Revenues			
Program revenues:			
Charges for services	\$ 1.2	\$ 1.3	\$ (0.1)
Operating grants and contributions	21.7	24.2	(2.5)
Capital grants and contributions	-	0.6	(0.6)
General revenues:			
Federal and state aid not restricted	57.8	57.5	0.3
Property taxes	14.4	16.6	(2.2)
Other general revenues	7.4	4.6	2.8
Total Revenues	102.5	104.8	(2.3)
Expenses			
Instruction related	70.8	71.6	(0.8)
Student support services	13.3	12.5	0.8
Administration	5.6	5.6	-
Maintenance and operations	9.7	9.7	-
Other	4.0	3.8	0.2
Total Expenses	103.4	103.2	0.2
Change in Net Assets	\$ (0.9)	\$ 1.6	\$ (2.5)

Governmental Activities

As reported in the *Statement of Activities*, the cost of all of our governmental activities this year was \$103.4 million as compared to \$103.2 million in the prior year. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$14.4 million because the cost was paid by other governments and organizations who subsidized certain programs with grants and contributions (\$21.7 million). We paid for the remaining "public benefit" portion of our governmental activities with \$66.4 million in State funds and other revenues, like interest, general entitlements, and charges for services.

In Table 3, we have presented the cost and net cost of each of the District's largest functions - instruction, pupil support services, administration, maintenance and operations, and other miscellaneous functions. 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.

MERCED UNION HIGH SCHOOL DISTRICT

**MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2009**

Table 3

(Dollar amounts in millions)	Total Cost of Services		Net Cost of Services	
	2009	2008	2009	2008
Instruction	\$ 70.8	\$ 71.6	\$ 56.7	\$ 53.5
Pupil support services	13.3	12.5	7.0	6.8
Administration	5.6	5.6	4.9	5.0
Maintenance and operations	9.7	9.7	9.4	8.7
Other	4.0	3.8	2.5	3.2
Total	\$ 103.4	\$ 103.2	\$ 80.5	\$ 77.2

The District’s net cost of activities for the current year was \$80.5 million as compared to \$77.2 million in the prior year. A majority of the District’s expenses were related to the education and support of its students (70%).

THE DISTRICT’S FUNDS

As the District completed this year, our governmental funds, restricted and unrestricted, reported a combined fund balance of \$67.0 million, while the prior year reported a balance of \$47.8 million, which is a decrease of \$19.2million from last year (Table 4).

Table 4

(Amounts in millions)	Balances and Activity	
	July 1, 2008	June 30, 2009
General	\$ 12.0	\$ 14.4
Special Reserve - Other Than Capital Outlay	18.0	16.1
Building	0.2	22.6
Non-Major Funds	17.6	12.1
Total	\$ 47.8	\$ 65.2

The primary reasons for these decreases are:

- a. Our General Fund is our principal operating fund. The fund balance in the General Fund increased \$2.4 million to \$14.4 million. This increase is due to:
 1. Increased Federal revenue
 2. Decreased State revenue
 3. Decreased instructional related expenses
- b. Our Special Revenue Funds decreased from the prior year showing a net decrease of approximately \$1.4 million, primarily due to a transfer to the General Fund.
- c. The Debt Service Funds remained stable from last year.
- d. The Capital Projects Funds increased \$16.6 million due to general obligation bond issuance and constructions costs.

MERCED UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2009

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 on September 9, 2009. (A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report.)

CAPITAL ASSET & DEBT ADMINISTRATION

Capital Assets

At June 30, 2009, the District had \$84.3 million in a broad range of capital assets, including land, buildings, and furniture and equipment, while at June 30, 2008, the net fixed assets totaled \$77.7 million. This amount represents a net increase (including additions, deductions and depreciation) of just over \$6.6 million.

Table 5

(Amounts in millions)	Governmental Activities		
	2009	2008	Variance
Land	\$ 13.3	\$ 11.1	\$ 2.2
Construction in progress	9.4	6.0	3.4
Buildings and improvements	57.2	56.2	1.0
Equipment	4.4	4.4	-
Total	\$ 84.3	\$ 77.7	\$ 6.6

This year's additions of \$3.3 million included several vehicles, land, site and building improvements and classroom equipment such as computers.

Long-Term Obligations

At the end of this year, the District had \$48.6 million in debt outstanding versus \$23.6 million last year, an increase of 106 percent. The increase is primarily due to the District issuing \$25 million of General Obligation Bonds.

Table 6

(Amounts in millions)	Governmental Activities		
	2009	2008	Variance
General obligation bonds	\$ 47.8	\$ 23.3	\$ 24.5
Compensated absences	0.1	0.1	-
Postemployment benefits	0.6	-	0.6
Capital lease obligations	0.1	0.2	(0.1)
Total	\$ 48.6	\$ 23.6	\$ 25.0

MERCED UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2009

The District's general obligation bond rating continues to be "Series A." The State limits the amount of general obligation debt that District's can issue to 35 percent of the assessed value of all taxable property within the District's boundaries.

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2008-09 ARE NOTED BELOW:

Facilities Activities for 2008-2009

In May 2008, the Merced Union High School District Board of Trustees determined to use surplus new construction state grant funding to install artificial turf and rubberized track at Atwater High School football stadium. The work was completed over the summer under three contracts totaling \$1,308,552. The Board also determined to use the surplus funds to install stadium lights at three high school football fields which work was completed in late May 2009 for \$791,402 by Menghetti Construction. Using surplus modernization funds and District funds for capital facilities, the District established a community day school, Sequoia High School, to provide educational services for expelled, probation referred and SARB referred pupils. The industrial arts shop building at East Campus Educational Center was extensively renovated, from June to October 2008, to add large student lavatories, administrative offices and classrooms for \$936,061 by Basila Construction.

The District engaged the City of Merced in preparing a Memorandum of Understanding (MOU) requiring new annexations to pay triple the state school facility fee which the MOU is scheduled to return to the city council after Building Industry Association endorsement. Similarly the District executed a joint use agreement with financial commitments with the city to use 17 acres of a future city park at Tyler Road and Gerard Avenue as playfields for a future high school in October 2008. The District purchased the Tyler Road and Gerard Avenue 34 acre school site under threat of eminent domain in December for \$2,230,546. The District completed a year of negotiations over the conditions of approval of the City of Merced General Plan Amendment designating the Bellevue Road Area High School as a high school site with planning commission approval in April 2009. City Council approval is pending.

The District placed a General Obligation Bond Measure M on the November 2008 ballot which was approved by voters authorizing \$149,450,000 in bonds for high school facilities to implement the District's Five-Year Facility Plan of May 2008. A citizens' oversight committee was established for the bond fund expenditures. Measure M funded projects accomplished in 2008-2009 include: 1) the piping of 1,500 feet of irrigation canal bisecting future playfields at Livingston High School (LHS) for \$942,194; 2) clearing of the site of future playfields at LHS of structures and contaminated soil for \$82,821; 3) the planning of Atwater High School Agricultural Shop Modernization project; 4) planning of the LHS 19 acre addition of playfields; 5) replacement of sidewalks with drainage improvements at Merced High School quad for \$408,622; 6) planning of swimming pools for two high schools; and 7) soliciting lease-leaseback proposals for building a new high school and enlarging LHS.

Instructional Accomplishments of Fiscal Year 2008-09

In 2008-09, the Merced Union High School District (MUHSD) had several initiatives that were made in the instructional program. The District's fiscal resources were aligned to address these concerns in student achievement. The list is not intended to be comprehensive yet does address the significant realignment of resources to address our student achievement needs.

MERCED UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

- A common template for curriculum content across the curriculum.
- Consistent implementation of the content focused on the Essential Standards.
- Stronger benchmarks more closely aligned to the California Standard Tests (CST's).
- Collaboration built on the model of Professional Learning Communities.
- Focused professional development for all teachers to support them in meeting the needs of all students.
- Coherent programs that target specific learning deficiencies in groups of students.
- Child Welfare and Attendance (CWA) focus on three goals: Improve School Safety, Increase Attendance by 1%, and Improve School Culture.
- Inclusion of Special Education and English Learners (EL) students.
- New Data Management tool and new Formative Assessment program.

Common Template for Curriculum with Essential Standards

Over the last several years, staff in Educational Services has worked with teachers to develop Pacing Guides aligned to the State Standards. The Pacing Guides have been used in most core content subject areas to guide the pace of the curriculum so that the most important content is taught, especially the content that will be tested on the California Standards Test, or the CST's as they are commonly referred to.

In addition to the Pacing Guides, Benchmark Exams were developed for quarter and semester finals. Results from the Benchmark Exams were used for grading purposes, but more importantly, to see how well students were mastering the Standards. Weekly collaboration time is spent analyzing the results of the Benchmark Exams to get some sense of how well students are mastering the Standards, where the gaps are in the curriculum, how strong the correlation is between Benchmark results and the CST's, and possibly how instruction might be improved to close achievement gaps.

While much work has been done, this year the District has set out to improve previous efforts. For one thing, the current Pacing Guides are not of similar formats. Secondly, the Benchmark Exams could have a stronger correlation to the CST's. Also, the Benchmark Exams are not consistently applied. Some are given quarterly, some every semester. It depends on the subject. Finally, the Pacing Guides are not as focused on the Essential Standards as they could be. The timing is right for revision.

The District developed Pacing Guides by utilizing Understanding By Design model and Unit Organizers created by the Center for Research on Learning at the University of Kansas as a template. Because the Unit Organizers incorporate the critical components of Understanding By Design and Merced High School is experienced with the Unit Organizers, that model was selected for MUHSD.

For this year, all subjects that have a CST (13) will revamp their current Pacing Guides and create Unit Organizers for each unit of the course. Course Organizers will also be developed. Executive Director of Educational Services is leading this effort. Trainers from the Center for Research on Learning will also be utilized to lead teachers through this process.

One aspect of the new Unit Organizers is Essential Questions...missing from our current Pacing Guides. Essential Questions focus instruction on the most important content. Teachers write the Essential Questions based upon the Blueprints, State documents that identify the content that will be tested on the CST's. Thus, the Essential Questions provide the focus for the Benchmark Exams. If students can answer the Essential Questions, they have mastered the content.

MERCED UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2009

Sites selected a representative teacher from each subject area to work on this project. The first meetings of these groups have already begun and every subject met at least once by mid-January 2009. The Unit and Course Organizer portion of the work will be completed by March 2010.

Once the Unit Organizers have been completed, new Benchmark Exams will be created. The District has contracted with Intel-Assess to provide a test bank from which teachers can select questions. Intel-Assess was selected as the provider of test bank questions because of their high quality. Intel-Assess only works in California. They carefully align their test bank items with the CST's. Their test writers have advanced degrees in test construction and also have experience teaching in the area for which they are writing questions.

The District's goal is to have benchmark exam results correlate at .8 or higher to the CST's. If this is achieved, the District should be able to better predict our students' proficiency levels and our API's based upon Benchmark Exam results. The Director of Educational services and the Program Administrator are leading this part of the project.

The District believes that more reliable data from Benchmark Exams will enhance and help focus collaboration by teachers. The District also believes that the Unit Organizers will help teachers focus on the most important content...and that the collaborative discussions will better align and focus instruction.

The District will coordinate all Benchmark Exams by quarter. The sites will manage the Interim Benchmarks. Interim Benchmarks will be given after every Unit.

Consistent and common delivery of content, common formats for Unit Organizers, common Benchmark Exams, and focused collaboration...all of this leads to collective efficacy, which research has shown to be the most powerful factor in improving student achievement in a school or district.

A Comprehensive Staff Development Plan

A plan was developed to provide Staff with training in all new adopted instructional materials. The 2009-10 plan emphasizes a focus on EL with consultant Katie Kinsella facilitating the discussion. The local staff development is focusing on EL Strategies, Inclusion Strategies, the Instructional Coaching Model, Professional Learning Communities, and Elicit Direct Instruction.

New Curriculum Adoptions

The Board adopted supplemental instruction material in the following areas to align with its vision of educational services to address student achievement needs: Algebra Readiness, Strategic English, Environmental Science, and College Prep Math.

Child Welfare and Attendance (CWA) Update

CWA has three primary goals for this year: Improve School Safety, Increase Attendance by 1%, and Improve School Culture. While these areas are interrelated, the District has have been simultaneously moving forward in all realms with the assistance of Associate Principals throughout the District. All have chosen one or more areas to assist in the planning and implementation of action plans designed to support the above goals. Those plans target improvement of processes on-site as well as at the District level. The following list highlights some of the progress made thus far:

MERCED UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2009

Improve School Safety:

- Expansion of safety-related interagency relations through active participation in the Merced County COM-VIP organization to combat gang issues facing our community.
- Awarding of matching Safety Grant of \$369,000.00 to improve surveillance systems throughout the district.
- Development and implementation of Anger Management Program at all sites for students suspended for fighting, including recruitment of counselors and delivery of services; expansion of those services for other infractions being planned.
- Established procedures for access to Merced County Recovery Assistance For Teens (RAFT) program for our students with drug and alcohol problems.
- Collection, analysis and dissemination of safety-related data.
- Enhancement of compliance with state-mandated Safe School Planning Committee processes and standardization of plans.
- Planning for interagency community emergency preparedness exercise.
- Code Red Emergency Management training.
- Staff Development provided for Campus Liaisons, School Resource Officers and Associate Principals.

Increase Attendance by 1%:

- Establishment of School Attendance Review Teams (SART) and School Attendance Review Board (SARB) processes, garnering the support of MCOE, District Attorney, Juvenile Court System, Human Service Agency. First meeting was held in January 2009.
- Participation in county-wide Every Student/Every Day Program.
- Improvement in completion and accuracy of CBEDS accountability process.
- Streamlining and standardization of information processing system codes (AERIES) used to track attendance.
- Collection, analysis and dissemination of attendance-related data.
- Collaboration with Health Services to begin collection of baseline data for Asthma and Flu-related illness to support grant application to expand health services in these areas.
- In collaboration with Alternative Education Staff, Counselors and Associate Principals, modified and streamlined Alternative Education Screening Process.
- Provided Staff Development for Attendance Secretaries, Liaisons and Associate Principals.

Improve School Culture:

- Ongoing collaboration with Merced City Elementary School District and the City of Merced including Police, Probation and Parks & Recreation Departments to coordinate implementation of Character Counts community-wide. Plan outreach to Atwater Elementary and Livingston Elementary for same purpose.
- Support of BTSA Mentor's efforts in working with Counselors, Associate Principals and Teachers toward the development of Character Counts curricular implementation.
- Currently in planning process for printing of next year's agendas to reflect consistency with rules and policies across schools within the framework of Character Counts.
- Provided Staff Development for Associate Principals in Character Counts and Victory with Honor.

MERCED UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

Program Improvement Update

The District has been identified as Program Improvement, Year 2. With technical assistance from MCOE, each school completed the Academic Program in November, 2008. The District has been working with MCOE to complete the next steps in the process, completing a District Assistance Survey and a Least Restrictive Environment assessment, and writing an addendum to the LEA Plan that was due in February, 2009.

Special Education Model

The Merced Union High School District (MUHSD) will utilize a new service delivery model for diploma-bound students with special needs. In the past, students with special needs, who were working towards a diploma, have been served through a combination of RSP classes and General Education classes. Sophomore, junior and senior students, during the 2009-10 school year, will continue to receive services under this combination of classes. The new model, which is based on Response to Intervention (RTI), is being implemented beginning with freshman students for the 2009-2010 school year. This new model calls for inclusion of students (formerly called RSP) in General Education classrooms. In each subsequent year (2011, 2012, 2013), the new freshmen class of "Inclusion Students" will continue to receive services under this new model with a gradual phase-out of pull-out services outside of the core by 2012. Special Day Class (SDC) and Severely Handicapped (SH) students will continue to receive a portion of their instruction in Special Education classrooms and a portion in regular education classrooms as determined through their Individualized Education Plan (IEP).

Students requiring intensive intervention in English Language Arts will be enrolled in a two-or three-period block called REACH. This intensive intervention will help close the achievement gap by providing intensive, sustained direct instruction to address deficiencies in decoding and comprehension.

Students who need strategic intervention in English Language Arts will be enrolled in a two-period block called Strategic English. Xtreme Reading will be the program used in this class to help improve students' reading and writing skills. There are two main components to the Xtreme Reading program. First is a reading instruction core that helps students develop word recognition and increased fluency. Second is comprehension instruction that teaches the skills and strategies needed to bring meaning to reading. Additionally, students must acquire the skills to express themselves effectively in writing. This class will incorporate "learning strategies" based on those already used in our program and augmented with some from the Strategic Instructional Model (SIM). These skills will better prepare students to pass required classes, graduate from high school, and prepare for the future. Professional development and instructional materials will be provided to teachers.

Learning Skills is a class taught by a Specialized Academic Instructor (SAI). It is treated as an elective course. The purpose of the course is to enhance students' abilities to be independent and successful in school by integrating effective study skills into their core classes. Students who have modifications written into their IEP (such as "read test aloud" and "extra time for tests/assignments") may use this class for implementation of these modifications. In addition, students will cover topics such as note taking, goal setting, technology as a tool, organization, editing/revising tools, test taking strategies, and college awareness.

Algebra Readiness will be a new General Education class that will also be offered to students so they can master the prerequisite skills needed for Algebra. The class will focus on mastery of key concepts, skills, and strategies necessary for students to advance to Algebra.

MERCED UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2009

REACH, Strategic English, and Algebra Readiness classes will be offered to both regular and Special Education students. Students will be assessed during their eighth-grade year to help make placement decisions about their class schedule.

Intel-Assess/SchoolCity

The District has adopted Intel-Assess to provide assessment solutions that enable educators to use data to drive student achievement. By providing high quality assessments, written to a district's specific needs, Intel-Assess will enable the District to help students master essential skills by identifying specific areas of weakness and providing information needed for targeted remediation. In addition, the District has partnered with SchoolCity to take advantage of the combination of software programs and merge Intel-Assess's high-quality assessment building, item bank and authoring tool with SchoolCity's STARS™ Suite. At the core of the partnership is a sophisticated back-end integration process linking the two solutions, providing the district with the most comprehensive assessment and reporting platform available on the market.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

At the time the District budget was developed, a State budget was not yet adopted. Even though the State continued to struggle with on-going economic crisis issues, the District 2009-10 Budget, adopted on June 24, 2009, was balanced and fiscally sound reflecting an unfunded 4.25 percent cost-of-living adjustment (COLA) with a total deficit of 17.967%.

The Adopted Budget included a recapturing of \$1.5 million in Tier III categorical funds and a reduction in the Routine Restricted Maintenance match from 3 percent of the District's total expenditures to one and one-half percent. This budget also included \$3.1 million in one-time State Fiscal Stabilization Funding (SFSF); approximately \$1.3 million in additional one-time Federal American Recovery and Reinvestment Act funds (ARRA) and a total reduction to all site budgets by 10 percent. It also included reductions of \$2.5 million in several curricular/District areas approved by the Board of Trustees at the March 11, 2009 Board meeting.

On July 28, 2009 Governor Schwarzenegger signed into effect the amended budget for 2009-10. Merced Union High School District is a single budget adoption district and is not required to submit a 45-day Revised Budget in its entirety. However, due to the major budget changes made by the Governor and the impact these changes have on the District's June 24, 2009 Adopted Budget, a 2009-10 Revised Budget was presented to the Board on September 9, 2009.

The 2009-10 Revised Budget includes a revenue limit deficit of 18.3555% an increase from the Adopted Budget deficit of 17.967% and a one-time deduction to the revenue limit of \$2.6 million. Included are additional ARRA Title I funds of \$1.3 million. The recapturing of Tier III categorical funds was reduced to \$1.4 million from \$1.5 million budgeted in the June 24 Adopted Budget.

MERCED UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2009

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 any questions about this report or need any additional financial information, contact:

Diane C. Hockersmith, Ed.D
Deputy Superintendent, Business Services
Merced Union High School District
3430 A Street, Castle Airport
Atwater, California 95301

Telephone number: (209) 385-6411
Email: dhockersmith@muhsd.k12.ca.us

MERCED UNION HIGH SCHOOL DISTRICT

**STATEMENT OF NET ASSETS
JUNE 30, 2009**

	Governmental Activities
ASSETS	
Deposits and investments	\$ 56,590,394
Receivables	15,562,582
Stores inventories	310,626
Nondepreciable capital assets	22,735,666
Capital assets being depreciated	107,230,166
Accumulated depreciation	(45,670,636)
Total Assets	<u>156,758,798</u>
LIABILITIES	
Accounts payable	6,407,993
Deferred revenue	790,977
Current portion of long-term obligations	1,653,205
Noncurrent portion of long-term obligations	46,930,102
Total Liabilities	<u>55,782,277</u>
NET ASSETS	
Invested in capital assets, net of related debt	59,021,279
Restricted for:	
Debt service	2,368,150
Capital projects	6,479,658
Educational programs	6,396,273
Other activities	19,427,429
Unrestricted	7,283,732
Total Net Assets	<u>\$ 100,976,521</u>

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

MERCED UNION HIGH SCHOOL DISTRICT

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>
Governmental Activities:			
Instruction	\$ 57,258,059	\$ 109,627	\$ 11,062,675
Instruction-related activities:			
Supervision of instruction	3,129,071	2,568	1,500,132
Instructional library, media and technology	1,268,077	-	104,373
School site administration	9,185,528	4,567	1,353,915
Pupil services:			
Home-to-school transportation	2,459,801	-	624,099
Food services	3,754,593	651,104	3,011,534
All other pupil services	7,077,758	98	1,986,099
General administration:			
Data processing	1,207,357	-	-
All other general administration	4,342,649	26,593	648,103
Plant services	9,698,232	4,124	266,196
Ancillary services	1,713,489	-	27,762
Enterprise services	397,209	-	-
Interest on long-term obligations	1,260,554	-	-
Other outgo	690,291	441,956	1,105,504
Total Governmental-Type Activities	\$ 103,442,668	\$ 1,240,637	\$ 21,690,392
General revenues and subventions:			
Property taxes, levied for general purposes			
Property taxes, levied for debt service			
Taxes levied for other specific purposes			
Federal and State aid not restricted to specific purposes			
Interest and investment earnings			
Miscellaneous			
Subtotal, General Revenues			
Change in Net Assets			
Net Assets - Beginning			
Net Assets - Ending			

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

Net (Expenses)	
Revenues and	
Changes in	
Net Assets	
<hr/>	
Governmental	
Activities	
<hr/>	
\$	(46,085,757)
	(1,626,371)
	(1,163,704)
	(7,827,046)
	(1,835,702)
	(91,955)
	(5,091,561)
	(1,207,357)
	(3,667,953)
	(9,427,912)
	(1,685,727)
	(397,209)
	(1,260,554)
	857,169
	<hr/> (80,511,639) <hr/>
	12,810,531
	1,461,826
	112,280
	57,834,496
	624,388
	6,755,958
	<hr/> 79,599,479 <hr/>
	(912,160)
	101,888,681
\$	<hr/> 100,976,521 <hr/>

MERCED UNION HIGH SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2009**

	General Fund	Special Reserve Non-Capital Fund	Building Fund
ASSETS			
Deposits and investments	\$ 5,866,953	\$ 16,148,568	\$ 24,392,238
Receivables	14,679,258	-	-
Due from other funds	290,358	-	308
Stores inventories	195,680	-	-
Total Assets	\$ 21,032,249	\$ 16,148,568	\$ 24,392,546
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 5,369,572	\$ -	234,501
Due to other funds	483,572	-	1,559,574
Deferred revenue	788,181	-	-
Total Liabilities	6,641,325	-	1,794,075
FUND BALANCES			
Reserved for:			
Revolving cash	20,000	-	-
Stores inventories	195,680	-	-
Legally restricted	6,396,273	-	-
Unreserved:			
Designated	7,778,971	16,148,568	22,437,184
Undesignated, reported in:			
General Fund	-	-	-
Special revenue funds	-	-	-
Debt service funds	-	-	-
Capital projects funds	-	-	161,287
Total Fund Balance	14,390,924	16,148,568	22,598,471
Total Liabilities and Fund Balances	\$ 21,032,249	\$ 16,148,568	\$ 24,392,546

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

Non-Major Governmental Funds	Total Governmental Funds
\$ 10,182,635	\$ 56,590,394
883,324	15,562,582
2,063,750	2,354,416
114,946	310,626
<u>\$ 13,244,655</u>	<u>\$ 74,818,018</u>
\$ 803,920	\$ 6,407,993
311,270	2,354,416
2,796	790,977
<u>1,117,986</u>	<u>9,553,386</u>
1,199	21,199
114,946	310,626
47,185	6,443,458
9,595,189	55,959,912
-	-
-	-
2,368,150	2,368,150
-	161,287
<u>12,126,669</u>	<u>65,264,632</u>
<u>\$ 13,244,655</u>	<u>\$ 74,818,018</u>

MERCED UNION HIGH SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2009**

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

Total Fund Balance - Governmental Funds		\$ 65,264,632
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	\$ 129,965,832	
Accumulated depreciation is	<u>(45,670,636)</u>	
Total capital assets		84,295,196
Long-term liabilities at year end consist of:		
General obligation bonds - current interest bonds	(30,265,000)	
General obligation bonds - capital appreciation bonds	(17,501,262)	
Net OPEB obligation	(601,680)	
Compensated absences	(109,239)	
Capital lease obligations	<u>(106,126)</u>	
Total long-term liabilities		<u>(48,583,307)</u>
Total Net Assets - Governmental Activities		<u><u>\$ 100,976,521</u></u>

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

MERCED UNION HIGH SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2009**

	General Fund	Special Reserve Non-Capital Fund
REVENUES		
Revenue limit sources	\$ 67,310,308	\$ -
Federal sources	10,734,013	-
Other state sources	11,852,874	-
Other local sources	2,687,879	553,331
Total Revenues	92,585,074	553,331
EXPENDITURES		
Current		
Instruction	52,809,708	-
Instruction-related activities:		
Supervision of instruction	3,000,959	-
Instructional library, media and technology	1,162,699	-
School site administration	8,455,842	-
Pupil Services:		
Home-to-school transportation	2,238,802	-
Food services	42,691	-
All other pupil services	6,916,657	-
General administration:		
Data processing	1,189,502	-
All other general administration	3,968,218	-
Plant services	9,085,498	-
Facility acquisition and construction	26,113	-
Ancillary services	1,705,395	-
Other outgo	690,291	-
Enterprise services	397,209	-
Debt service		
Principal	16,740	-
Interest and other	1,582	-
Total Expenditures	91,707,906	-
Excess (Deficiency) of Revenues Over Expenditures	877,168	553,331
Other Financing Sources (Uses):		
Transfers in	2,246,218	-
Other sources	-	-
Transfers out	(685,018)	(2,444,382)
Net Financing Sources (Uses)	1,561,200	(2,444,382)
NET CHANGE IN FUND BALANCES	2,438,368	(1,891,051)
Fund Balance - Beginning	11,952,556	18,039,619
Fund Balance - Ending	\$ 14,390,924	\$ 16,148,568

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

Building Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 67,310,308
-	3,012,709	13,746,722
-	2,998,932	14,851,806
217,413	3,163,049	6,621,672
<u>217,413</u>	<u>9,174,690</u>	<u>102,530,508</u>
-	1,990,404	54,800,112
-	103,352	3,104,311
-	-	1,162,699
-	626,747	9,082,589
-	-	2,238,802
-	3,616,536	3,659,227
-	68,616	6,985,273
-	-	1,189,502
-	265,086	4,233,304
-	675,625	9,761,123
2,786,903	6,350,447	9,163,463
-	-	1,705,395
-	-	690,291
-	-	397,209
-	1,516,167	1,532,907
-	368,753	370,335
<u>2,786,903</u>	<u>15,581,733</u>	<u>110,076,542</u>
<u>(2,569,490)</u>	<u>(6,407,043)</u>	<u>(7,546,034)</u>
-	1,085,018	3,331,236
24,999,944	-	24,999,944
-	(201,836)	(3,331,236)
<u>24,999,944</u>	<u>883,182</u>	<u>24,999,944</u>
22,430,454	(5,523,861)	17,453,910
168,017	17,650,530	47,810,722
<u>\$ 22,598,471</u>	<u>\$ 12,126,669</u>	<u>\$ 65,264,632</u>

MERCED UNION HIGH SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE DISTRICT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2009

Total Net Change in Fund Balances - Governmental Funds **\$ 17,453,910**
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:

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

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

Capital outlays	\$ 9,814,520	
Depreciation expense	<u>(3,240,062)</u>	6,574,458

Interest on long-term obligations in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the Statement of Activities is the result of \$890,219 of additional accumulated interest that was accreted on the District's "capital appreciation" general obligation bonds.

(890,219)

In the Statement of Activities compensated absences (vacations) is measured by the amounts earned during the year. In the governmental funds, however, expenditures for this item are measured by the amount of financial resources used (essentially, the amounts actually paid).

Vacation earned was less than the amounts used by \$18,408. 18,408

Proceeds received from issuance of debt is a revenue in the governmental funds, but it increases long-term liabilities in the statement of net assets and does not affect the statement of activities such as the sale of general obligation bonds:

(24,999,944)

Repayment of debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities:

General obligation bonds		1,400,000
Capital lease obligations		132,907

Postemployment benefits other than pensions (OPEB): In governmental funds, OPEB costs are recognized when the employer contributions are made. In the statement of activities, OPEB costs are recognized on the accrual basis. This year, the unfunded OPEB costs were:

(601,680)

Change in Net Assets of Governmental Activities **\$ (912,160)**

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

MERCED UNION HIGH SCHOOL DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2009**

	Private- Purpose Trusts	Agency		Total
	Scholarships	Deferred Compensation	Student Body	
ASSETS				
Deposits and investments	\$ 1,407,100	\$ 2,248,334	\$ 668,221	\$ 4,323,655
Total Assets	<u>\$ 1,407,100</u>	<u>\$ 2,248,334</u>	<u>\$ 668,221</u>	<u>\$ 4,323,655</u>
LIABILITIES				
Due to student groups and employees	\$ -	\$ 2,248,334	\$ 668,221	\$ 2,916,555
Total Liabilities	<u>-</u>	<u>2,248,334</u>	<u>668,221</u>	<u>2,916,555</u>
NET ASSETS				
Reserved for scholarships	1,407,100	-	-	1,407,100
Total Net Assets	<u>\$ 1,407,100</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,407,100</u>

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

MERCED UNION HIGH SCHOOL DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2009**

	Private- Purpose Trusts Scholarships
ADDITIONS	
Trust income	\$ 446,265
Contributions	32,000
Interest	33,684
Total Additions	<u>511,949</u>
DEDUCTIONS	
Scholarships awarded	460,745
Miscellaneous	55
Total Deductions	<u>460,800</u>
Change in Net Assets	51,149
Net Assets - Beginning	1,355,951
Net Assets - Ending	<u>\$ 1,407,100</u>

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

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Merced Union High School District was established in 1915 and comprises the area of approximately 625 square miles located in Merced County. The District operates under a locally-elected five-member Board form of government and provides educational services to grades 9 - 12 as mandated by the State and/or Federal agencies. The District is currently operating schools in the cities of Atwater, Livingston and Merced. The City of Merced has three campuses. Merced High School and Golden Valley High Schools have classes at the ninth through twelfth grade levels. East Campus Educational Center (ECEC) supports five educational programs: Yosemite High School which serves as the District's continuation school; Sequoia High School which serves as the District's community day school, Independence High School which provides independent study opportunities; classes for students from Merced and Golden Valley High School; and the main facility for the Adult School Program is located at ECEC. The City of Atwater has two campuses. Atwater High School has classes at the ninth through twelfth grade levels. Buhach Colony High School opened in August of 2001 with classes at the ninth through twelfth grade levels.

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

Basis of Presentation - Fund Accounting

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

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

Major Governmental Funds

General Fund The General Fund is the chief operating fund for all districts. It is used to account for the ordinary operations of a district. All transactions except those required or permitted by law to be in another fund are accounted for in this fund.

Special Reserve Non-Capital Fund The Special Reserve Non-Capital Fund is used primarily to provide for the accumulation of General Fund monies for general operating purposes other than for capital outlay (*Education Code Section 42840*).

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

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

Non-Major Governmental Funds

Special Revenue Funds The Special Revenue Funds are established to account for the proceeds from specific revenue sources (other than trusts or for major capital projects) that are restricted to the financing of particular activities:

Adult Education Fund The Adult Education Fund is used to account separately for Federal, State, and local revenues for adult education programs and is to be expended for adult education purposes only.

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

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

Deferred Maintenance Fund The Deferred Maintenance Fund is used to account separately for State apportionments and the District's contributions for deferred maintenance purposes (*Education Code* Sections 17582-17587) and for items of maintenance approved by the State Allocation Board.

Pupil Transportation Equipment Fund The Pupil Transportation Equipment Fund is used to account separately for State and local revenues specifically for the acquisition, rehabilitation, or replacement of equipment used to transport students (*Education Code* Section 41852[b]).

Special Reserve Fund for Postemployment Benefits The Special Reserve Fund for Postemployment Benefits may be used pursuant to *Education Code* Section 42840 to account for amounts the District has earmarked for the future cost of postemployment benefits but has not contributed irrevocably to a separate trust for the postemployment benefit plan.

Capital Project Funds The Capital Project funds are established to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

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

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

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

Special Reserve Fund for Capital Outlay Projects The Special Reserve Fund for Capital Outlay Projects exists primarily to provide for the accumulation of General Fund monies for capital outlay purposes (*Education Code* Section 42840).

Debt Service Funds The Debt Service Funds are established to account for the accumulation of resources for and the payment of principal and interest on long-term obligations.

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

Tax Override Fund The Tax Override Fund is used for the repayment of voted indebtedness (other than Bond Interest and Redemption Fund repayments) to be financed from ad valorem tax levies.

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into two classifications: private-purpose trust funds and agency funds.

Trust funds are used to account for the assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's trust funds are scholarship and deferred compensation accounts. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The District's agency fund accounts for student body activities (ASB).

Basis of Accounting - Measurement Focus

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

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, of the District and for each governmental function, and exclude fiduciary activity. Direct expenses are those that are specifically associated with a service, program, or department and are therefore, clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the Statement of Activities, except for depreciation. 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 or business segment is self-financing or draws from the general revenues of the District. Eliminations have been made to minimize the double counting of internal activities.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

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

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

Governmental Funds All governmental funds are accounted for using the 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 financial statements are prepared. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting, and the governmental fund financial statements, prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting.

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. Generally, available is defined as collectible within 45 or 60 days. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

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

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

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

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

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

Investments

Investments held at June 30, 2009, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county pools are determined by the program sponsor.

Restricted Assets

Restricted assets arise when restrictions on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation.

Stores Inventories

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

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the District. The District maintains a capitalization threshold of \$5,000 for equipment and \$15,000 for land, buildings and land improvements. 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.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

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

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

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities columns of the Statement of Net Assets.

Compensated Absences

Accumulated unpaid vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide statement of net assets as long-term obligations.

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

Accrued Liabilities and Long-Term Obligations

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

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

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

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.

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.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The government-wide financial statements reports \$34,671,510 of restricted net assets, of which \$16,735,203 is restricted by enabling legislation.

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 and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented in the financial statements. Interfund transfers are eliminated in the governmental activities column of the *Statement of Activities*.

Estimates

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

Budgetary Data

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

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

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

Property Tax

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

Changes in Accounting Principles

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

This Statement provided for prospective implementation - that is, that employers set the beginning net OPEB obligation at zero as of the beginning of the initial year. The District has implemented the provisions of this Statement for the fiscal year ended June 30, 2009. The District's annual required contribution (ARC) was \$1,263,610 for the year ended June 30, 2009, and made a contribution of \$661,930, which resulted in a net OPEB obligation of \$601,680.

New Accounting Pronouncements

In March 2009, the GASB issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The requirements of this Statement are effective for the financial statements for periods beginning after June 15, 2010. Early implementation is encouraged.

In April 2009, the GASB issued GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to incorporate the hierarchy of generally accepted accounting principles (GAAP) for State and local governments into the GASB authoritative literature. The "GAAP hierarchy" consists of the sources of accounting principles used in the preparation of financial statements of State and local governmental entities that are presented in conformity with GAAP, and the framework for selecting those principles. GASB Statement No. 55 is effective immediately.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

In April 2009, the GASB issued GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statements on Auditing Standards. This Statement addresses three issues not included in the authoritative literature that establishes accounting principles – related party transactions, going concern considerations, and subsequent events. The presentation of principles used in the preparation of financial statements is more appropriately included in accounting and financial reporting standards rather than in the auditing literature. GASB Statement No. 56 is effective immediately.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2009, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 56,590,394
Fiduciary funds	4,323,655
Total Deposits and Investments	<u>\$ 60,914,049</u>

Deposits and investments as of June 30, 2009, consist of the following:

Cash on hand and in banks	\$ 2,132,737
Cash in revolving	21,199
Investments	58,760,113
Total Deposits and Investments	<u>\$ 60,914,049</u>

Policies and Practices

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

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

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

General Authorizations

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Pool and having the Pool purchase a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Segmented Time Distribution

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following schedule that shows the distribution of the District's investments by maturity:

Investment Type	Fair Value	12 Months or Less	13 - 24 Months	25 - 60 Months	More Than 60 Months
Mutual Funds	\$ 2,248,334	\$ 2,248,334	\$ -	\$ -	\$ -
County Pool	56,511,779	56,511,779	-	-	-
Total	<u>\$ 58,760,113</u>	<u>\$ 58,760,113</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

MERCED UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of the year-end for each investment type.

Investment Type	Fair Value	Minimum Legal Rating	Rating as of Year End		
			AAA	Aa	Unrated
Mutual Funds	\$ 2,248,334	N/A	\$ -	\$ -	\$ 2,248,334
County Pool	56,511,779	N/A	-	-	56,511,779
Total	<u>\$ 58,760,113</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ 58,760,113</u>

N/A - Not applicable

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government Code. Investments in any one issuer that represent five percent or more of the total investments are as follows:

Issuer	Investment Type	Reported Amount
Merced School Employees Federal Credit Union	Mutual Funds	<u>\$ 2,248,334</u>

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2009, \$1,551,110 of the District's bank balances were exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

Custodial Credit Risk - Investments

This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. Of the investment in Mutual Funds of \$2,248,334, the District has a custodial credit risk exposure of \$2,248,334, because the related securities are uninsured, unregistered and held by the brokerage firm which is also the counterparty for these securities. The District does not have a policy limiting the amount of securities that can be held by counterparties.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009

NOTE 3 - RECEIVABLES

Receivables at June 30, 2009, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Non-Major Governmental Funds	Total
Federal Government			
Categorical aid	\$ 2,647,674	\$ 411,783	\$ 3,059,457
State Government			
Apportionment	10,250,040	340,384	10,590,424
Categorical aid	727,294	11,937	739,231
Lottery	688,078	-	688,078
Other	124,735	-	124,735
Local Sources	241,437	119,220	360,657
Total	<u>\$ 14,679,258</u>	<u>\$ 883,324</u>	<u>\$ 15,562,582</u>

MERCED UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2009, was as follows:

	Balance <u>July 1, 2008</u>	Additions	Deductions	Balance <u>June 30, 2009</u>
Governmental Activities				
Capital Assets not being depreciated				
Land	\$ 11,065,940	\$ 2,230,546	\$ -	\$ 13,296,486
Construction in progress	<u>6,021,576</u>	<u>4,327,874</u>	<u>910,270</u>	<u>9,439,180</u>
Total Capital Assets Not Being Depreciated	<u>17,087,516</u>	<u>6,558,420</u>	<u>910,270</u>	<u>22,735,666</u>
Capital Assets being depreciated				
Land improvements	14,622,625	-	-	14,622,625
Buildings and improvements	76,851,370	3,515,313	-	80,366,683
Furniture and equipment	<u>11,968,405</u>	<u>651,057</u>	<u>378,604</u>	<u>12,240,858</u>
Total Capital Assets Being Depreciated	<u>103,442,400</u>	<u>4,166,370</u>	<u>378,604</u>	<u>107,230,166</u>
Less Accumulated Depreciation				
Land improvements	8,996,136	499,502	-	9,495,638
Buildings and improvements	26,164,761	2,124,318	-	28,289,079
Furniture and equipment	<u>7,648,281</u>	<u>616,242</u>	<u>378,604</u>	<u>7,885,919</u>
Total Accumulated Depreciation	<u>42,809,178</u>	<u>3,240,062</u>	<u>378,604</u>	<u>45,670,636</u>
Governmental Activities Capital Assets, Net	<u>\$ 77,720,738</u>	<u>\$ 7,484,728</u>	<u>\$ 910,270</u>	<u>\$ 84,295,196</u>

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
Instruction	\$ 2,222,349
Supervision of instruction	1,259
Instructional library, media, and technology	97,878
School site administration	73,207
Home-to-school transportation	206,069
Food services	84,258
All other pupil services	43,710
Data processing	64,925
All other general administration	108,757
Plant services	337,650
Total Depreciation Expenses Governmental Activities	<u>\$ 3,240,062</u>

MERCED UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 5 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund receivable and payable balances at June 30, 2009, are as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Major Governmental Funds		
General	\$ 290,358	\$ 483,572
Building	308	1,559,574
Total Major Governmental Funds	<u>290,666</u>	<u>2,043,146</u>
Non-Major Governmental Funds		
Adult	14	104,931
Child Development	122,697	27,107
Cafeteria	3,387	159,251
Deferred Maintenance	358,749	-
Capital Facilities	830,391	308
County School Facilities	257,501	-
Special Reserve - Capital Outlay	491,011	19,673
Total Non-Major Governmental Funds	<u>2,063,750</u>	<u>311,270</u>
Total All Governmental Funds	<u>\$ 2,354,416</u>	<u>\$ 2,354,416</u>

Operating Transfers

Interfund transfers for the year ended June 30, 2009, consisted of the following:

The General Fund transferred to the Deferred Maintenance Fund for the required State match.	\$ 485,018
The General Fund transferred to the Cafeteria Fund for a temporary loan.	200,000
The Special Reserve - Other than Capital Outlay Fund transferred to the General Fund to cover the golden handshake payment.	2,044,382
The Special Reserve - Other than Capital Outlay Fund transferred to the Special Reserve for Postemployment Benefits Fund for the required annual contribution.	400,000
The Cafeteria Fund transferred to the General Fund to pay back a temporary loan.	201,836
Total	<u>\$ 3,331,236</u>

MERCED UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2009, consisted of the following:

	General Fund	Building Fund	Non-Major Governmental Funds	Total
Vendor payables	\$ 2,470,577	\$ 234,501	\$ 803,920	\$ 3,508,998
State apportionment	1,517,732	-	-	1,517,732
Deferred payroll	1,381,263	-	-	1,381,263
Total	<u>\$ 5,369,572</u>	<u>\$ 234,501</u>	<u>\$ 803,920</u>	<u>\$ 6,407,993</u>

NOTE 7 - DEFERRED REVENUE

Deferred revenue at June 30, 2009, consists of the following:

	General Fund	Non-Major Governmental Funds	Total
Federal financial assistance	\$ 707,341	\$ -	\$ 707,341
State categorical aid	80,840	2,796	83,636
Total	<u>\$ 788,181</u>	<u>\$ 2,796</u>	<u>\$ 790,977</u>

MERCED UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 8 - LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2008	Additions and Accretion	Deductions	Balance June 30, 2009	Due in One Year
1999 Current Interest Bonds, Series A	\$ 8,105,000	\$ -	\$ 1,400,000	\$ 6,705,000	\$ 1,500,000
1999 Capital Appreciation Bonds, Series A	15,171,099	868,015	-	16,039,114	-
2009 Current Interest Bonds, Series A	-	23,560,000	-	23,560,000	-
2009 Capital Appreciation Bonds, Series A	-	1,462,148	-	1,462,148	-
Other Postemployment Benefits	-	1,263,610	661,930	601,680	-
Compensated absences	127,647	-	18,408	109,239	109,239
Capital leases	239,033	-	132,907	106,126	43,966
Total	<u>\$23,642,779</u>	<u>\$27,153,773</u>	<u>\$2,213,245</u>	<u>\$ 48,583,307</u>	<u>\$ 1,653,205</u>

The General Obligation Bonds are paid through the Bond Interest and Redemption Fund with proceeds from the assessment on property owners in the applicable boundaries. The Capital Leases are paid through the General Fund and Capital Facilities Fund. The accumulated vacation liability is paid through the fund that the employee worked. The Other Postemployment Benefits obligation is paid for by the General Fund or the Special Reserve Fund for Postemployment Benefits.

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Bond Issue	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2008	Bonds Issued	Accreted/ (Redeemed)	Bonds Outstanding June 30, 2009
Current Interest Series A	08/01/99	08/01/12	4.5 to 5.5%	\$ 10,610,000	\$ 8,105,000	\$ -	\$ (1,400,000)	\$ 6,705,000
Capital Appreciation Series A	08/01/99	08/01/24	5.4 to 5.75%	13,573,396	15,171,099	-	868,015	16,039,114
Current Interest Series A	04/17/09	08/01/10	2.0 to 5.0%	23,560,000	-	23,560,000	-	23,560,000
Capital Appreciation Series A	04/17/09	08/01/30	5.4 to 5.75%	1,439,944	-	1,439,944	22,204	1,462,148
Total				<u>\$24,183,396</u>	<u>\$23,276,099</u>	<u>\$24,999,944</u>	<u>\$ (509,781)</u>	<u>\$ 47,766,262</u>

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

The Merced Union High School District 1999 General Obligation Bonds, Series A, in the aggregate principal amount of \$24,631,061, are being issued by the Board of Supervisors of the County of Merced on behalf of the Merced Union High School District. The Series A Bonds represent a general obligation of the District, payable solely from ad valorem property taxes levied and collected by the County of Merced.

Interest with respect to the Current Interest Series A Bonds accrues from August 1, 1999, and is payable semiannually commencing February 1, 2000. The Capital Appreciation Series A Bonds are dated the date of delivery of the Series A Bonds and accrete interest from such date, compounded semiannually on February 1 and August 1 of each year, commencing February 1, 2000. Both series are issuable as fully registered Series A bonds.

The Merced Union High School District 2009 General Obligation Bonds, Series A, in the aggregate principal amount of \$24,999,994, are being issued by the Board of Supervisors of the County of Merced on behalf of the Merced Union High School District. The Series A Bonds represent a general obligation of the District, payable solely from *ad valorem* property taxes levied and collected by the County of Merced.

Interest with respect to the Current Interest Series A Bonds accrues from August 1, 2009, and is payable semiannually commencing February 1, 2010. The Capital Appreciation Series A Bonds are dated the date of delivery of the Series A Bonds and accrete interest from such date, compounded semiannually on February 1 and August 1 of each year, commencing August 1, 2009 with the exception of the Capital Accretion Bonds which mature May 1, 2034 which compound semiannually on May 1 and November 1 of each year, commencing November 1, 2009. Both series are issuable as fully registered Series A bonds.

Debt Service Requirements to Maturity

1999 Current Interest, Series A - Payment Summary

The bonds mature through 2013 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2010	\$ 1,500,000	\$ 293,632	\$ 1,793,632
2011	1,615,000	220,776	1,835,776
2012	1,730,000	140,035	1,870,035
2013	1,860,000	48,825	1,908,825
Total	<u>\$ 6,705,000</u>	<u>\$ 703,268</u>	<u>\$ 7,408,268</u>

MERCED UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

1999 Capital Appreciation, Series A - Accretion Summary:

<u>Maturity</u>	<u>Accreted Obligation</u>	<u>Unaccreted Interest</u>	<u>Final Maturity</u>
2014	\$ 1,616,000	\$ 384,000	\$ 2,000,000
2015	1,559,108	485,892	2,045,000
2016	1,504,800	585,200	2,090,000
2017	1,453,916	686,084	2,140,000
2018	1,399,274	785,726	2,185,000
2019	1,347,705	887,295	2,235,000
2020	1,298,794	986,206	2,285,000
2021	1,257,048	1,082,952	2,340,000
2022	1,210,296	1,179,704	2,390,000
2023	1,170,177	1,274,823	2,445,000
2024	1,130,500	1,369,500	2,500,000
2025	1,091,496	1,463,504	2,555,000
Total	<u>\$ 16,039,114</u>	<u>\$ 11,170,886</u>	<u>\$ 27,210,000</u>

2009 Current Interest, Series A - Payment Summary:

The bonds mature through 2030 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2010	\$ -	\$ 790,676	\$ 790,676
2011	1,550,000	1,054,587	2,604,587
2012	120,000	1,067,887	1,187,887
2013	150,000	1,064,437	1,214,437
2014	195,000	1,029,262	1,224,262
2015-2019	2,340,000	4,970,704	7,310,704
2020-2024	5,540,000	4,171,650	9,711,650
2025-2029	10,690,000	2,206,750	12,896,750
2030	2,975,000	74,375	3,049,375
Total	<u>\$ 23,560,000</u>	<u>\$ 16,430,328</u>	<u>\$ 39,990,328</u>

MERCED UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

2009 Capital Appreciation, Series A - Accretion Summary:

<u>Maturity</u>	<u>Accreted Obligation</u>	<u>Unaccreted Interest</u>	<u>Final Maturity</u>
2031	\$ 831,808	\$ 2,448,192	\$ 3,280,000
2032	402,948	3,107,052	3,510,000
2035	227,392	3,952,608	4,180,000
Total	<u>\$ 1,462,148</u>	<u>\$ 9,507,852</u>	<u>\$ 27,210,000</u>

Compensated Absences

The long-term portion of compensated absences for the District at June 30, 2009, amounted to \$109,239.

Capital Leases

The District has entered into agreements to lease various facilities and equipment. Such agreements are, in substance, purchases (capital leases) and are reported as capital lease obligations. The District's liability on lease agreements with options to purchase is summarized below:

Balance, July 1, 2008	\$ 239,033
Payments	132,907
Balance, June 30, 2009	<u>\$ 106,126</u>

The capital leases have minimum lease payments as follows:

<u>Year Ending June 30,</u>	<u>Lease Payment</u>
2010	\$ 48,716
2011	48,128
2012	17,327
Total	114,171
Less: Amount Representing Interest	8,045
Present Value of Minimum Lease Payments	<u>\$ 106,126</u>

Other Postemployment Benefit (OPEB) Obligation

The District implemented GASBS No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions during the year ended June 30, 2009. The District's annual required contribution (ARC) was \$1,263,610 for the year ended June 30, 2009, and made a contribution of \$661,930, which resulted in a net OPEB obligation of \$601,680. See Note 11 for additional information regarding the OPEB Obligation and the postemployment benefit plan.

MERCED UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 9 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Special Reserve Non-Capital Fund	Building Fund	Non-Major Governmental Funds	Total
Reserved					
Revolving cash	\$ 20,000	\$ -	\$ -	\$ 1,199	\$ 21,199
Stores inventory	195,680	-	-	114,946	310,626
Restricted programs	6,396,273	-	-	47,185	6,443,458
Total Reserved	<u>6,611,953</u>	<u>-</u>	<u>-</u>	<u>163,330</u>	<u>6,775,283</u>
Unreserved					
Designated					
Economic uncertainties	994,189	-	-	-	994,189
Other designation	6,784,782	16,148,568	22,437,184	9,595,189	54,965,723
Total Designated	<u>7,778,971</u>	<u>16,148,568</u>	<u>22,437,184</u>	<u>9,595,189</u>	<u>55,959,912</u>
Undesignated	-	-	161,287	2,368,150	2,529,437
Total Unreserved	<u>7,778,971</u>	<u>16,148,568</u>	<u>22,598,471</u>	<u>11,963,339</u>	<u>58,489,349</u>
Total	<u>\$ 14,390,924</u>	<u>\$ 16,148,568</u>	<u>\$ 22,598,471</u>	<u>\$ 12,126,669</u>	<u>\$ 65,264,632</u>

NOTE 10 - EXPENDITURES (BUDGET VERSUS ACTUAL)

At June 30, 2009, the following District major fund exceeded the budgeted amounts in total as follows:

Fund	Expenditures and Other Uses		
	Budget	Actual	Excess
General			
Certificated Salaries	\$ 42,021,815	\$ 42,629,544	\$ 607,729
Classified Salaries	\$ 13,668,700	\$ 14,303,939	\$ 635,239
Other outgo	\$ 350,341	\$ 435,290	\$ 84,949

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

NOTE 11 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

Plan Description

The Postemployment Benefit Plan (the "Plan") is a single-employer defined benefit healthcare plan administered by the Merced Union High School District. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of 95 retirees and beneficiaries currently receiving benefits and 955 active plan members.

Contribution Information

For fiscal year 2008-09, the District contributed \$661,930 to the plan, all of which was used for current premiums (approximately 54.4 percent of total premiums). Plan members receiving benefits contributed \$555,355, or approximately 45.6 percent of the total premiums. Contributions made by retirees range between \$14 to \$1,881 per month depending on when the retiree retired and the coverage selected.

Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	\$ 1,263,610
Contributions made	<u>(661,930)</u>
Increase in net OPEB obligation	601,680
Net OPEB obligation, beginning of year	<u>-</u>
Net OPEB obligation, end of year	<u><u>\$ 601,680</u></u>

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2009 was as follows:

<u>Year Ended</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
2009	<u>\$ 1,263,610</u>	<u>52.38</u>	<u>\$ 601,680</u>

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009

Funded Status and Funding Progress

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, investment returns, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. Since this is the first year of implementation, only the current year information is presented.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2008, actuarial valuation, the entry age normal method was used. The actuarial assumptions included a five percent investment rate of return (net of administrative expenses), based on the plan being funded in an irrevocable employee benefit trust invested in a combined equity and fixed income portfolio. Healthcare cost trend rates used four percent. The UAAL is being amortized at a level dollar method. The remaining amortization period at July 1, 2008, was 30 years.

NOTE 12 - RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2009, the District contracted with Self Insured Schools of California for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

Workers' Compensation

For fiscal year 2009, the District participated in the Merced County Schools Insurance Group, an insurance purchasing pool. The intent of the Merced County Schools Insurance Group is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Merced County Schools Insurance Group. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in the Merced County Schools Insurance Group. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage. A participant will then either receive money from or be required to contribute to the "equity-pooling fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the Merced County Schools Insurance Group. Participation in the Merced County Schools Insurance Group is limited to districts that can meet the Merced County Schools Insurance Group selection criteria.

Employee Medical Benefits

The District has contracted with the Self Insured Schools of California Health and Welfare Program to provide employee health benefits. Self Insured Schools of California Health and Welfare Program is a shared risk pool comprised of agencies within California. Rates are set through an annual calculation process. The District pays a monthly contribution, which is placed in a common fund from which claim payments are made for all participating districts. Claims are paid for all participants regardless of claims flow. The Board of Directors has a right to return monies to a district subsequent to the settlement of all expenses and claims if a district withdraws from the pool.

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

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

CalSTRS

Plan Description

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

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

Funding Policy

Active plan members are required to contribute 8.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2008-2009 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the fiscal years ending June 30, 2009, 2008, and 2007, were \$3,583,153, \$3,625,242, and \$3,268,128, respectively, and equal 100 percent of the required contributions for each year.

CalPERS

Plan Description

The District contributes to the School Employer Pool under the CalPERS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS 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, California 95811.

Funding Policy

Active plan members are required to contribute 7.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2008-2009 was 9.428 percent of covered payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2009, 2008, and 2007, were \$1,307,728, \$1,229,695, and \$1,046,691, respectively, and equal 100 percent of the required contributions for each year.

Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by social security or an alternative plan. The District has elected to use its alternative plan. Contributions made by the District and an employee vest immediately. The District contributes 6.2 percent of an employee's gross earnings. An employee is required to contribute 6.2 percent of his or her gross earnings to the pension plan.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$1,961,831 (4.517 percent of annual payroll). Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budget amounts reported in the *General Fund - Budgetary Comparison Schedule*.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from Federal and State agencies in the form of grants. 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, 2009.

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, 2009.

Operating Leases

The District has entered into various operating leases for buildings and equipment with lease terms in excess of one year. None of these agreements contain purchase options. All agreements contain a termination clause providing for cancellation after a specified number of days written notice to lessors, but it is unlikely that the District will cancel any of the agreements prior to the expiration date.

MERCED UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

Construction Commitments

As of June 30, 2009, the District had the following commitments with respect to the unfinished capital projects:

Capital Projects	Remaining Construction Commitment	Expected Date of Completion
Livingston High School and East Campus Ed. Center Painting	\$ 17,298	August 2009
Merced High School Painting	3,620	August 2009
Merced High School Intercom	33,507	August 2009
Sequoia High School (Community Day School)	552,375	June 2010
Livingston High School Safety Systems	122,393	June 2010
Atwater High School Safety Systems	125,313	June 2010
Buhach Colony High School Safety Systems	47,040	June 2010
East Campus Educational Center School Safety Systems	1,540	June 2010
Golden Valley High School Safety Systems	190,360	June 2010
Merced High School Safety Systems	486,067	June 2010
Atwater High School Ag Room & Shop Building	1,496,107	June 2010
Buhach Colony High School Greenhouse	2,914	June 2010
Buhach Colony High School Swimming Pool	1,355,157	June 2010
Golden Valley High School Swimming Pool	1,367,617	June 2010
Livingston High School Enlargement Phase I	32,288,957	June 2011
Merced High School Drainage/Pavement	427,120	June 2010
Bellevue Road High School Site	102,810,885	June 2012
Tyler and Gerard Road School Site	129,664,364	June 2017
Total	<u>\$ 270,992,634</u>	

**NOTE 15 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWERS
AUTHORITIES**

The District is a member of the Self-Insured Schools of California (SISC III), the Self-Insured Schools of California (SISC II), and the Merced County Schools Insurance Group (MCSIG) public entity risk pools. The District pays an annual premium to each entity for its health, workers' compensation, and property liability coverage. The relationships between the District and pools are such that they are not component units of the District for financial reporting purposes.

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

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

The District has no appointed board members to the governing board of SISC III.

During the year ended June 30, 2009, the District made payment of \$9,140,055 to SISC III for medical, dental and vision insurance.

The District has no appointed board members to the governing board of SISC II.

During the year ended June 30, 2009, the District made payment of \$536,637 to SISC II for property and liability insurance.

The District has appointed two board members to the governing board of MCSIG.

During the year ended June 30, 2009, the District made payment of \$1,004,247 to MCSIG for workers' compensation insurance.

NOTE 16 - SUBSEQUENT EVENT

On July 28, 2009, Governor Schwarzenegger signed a package of bills amending the 2008-09 and 2009-10 California State budgets. The budget amendments were designed to address the State's budget gap of \$24 billion that had developed as a result of the deepening recession since the State's last budget actions in February 2009.

The July budget package reduced, on a State-wide basis, \$1.6 billion in 2008-09 Proposition 98 funding through a reversion of undistributed categorical program balances. The budget language identified 51 specific programs and required the amounts associated with these programs that were "unallocated, unexpended, or not liquidated as of June 30, 2009" to revert to the State's General Fund. The July budget package also provided an appropriation in 2009-10 to backfill \$1.5 billion of these cuts to repay the 2008-09 reversion of the undistributed categorical program balances.

In accordance with the requirements of Governmental Accounting Standards Board Statement No. 33, the District has not recorded the revenue and related receivable associated with the District's portion of the unallocated, unexpended or unliquidated categorical program balances identified in the July 2009 State Budget package.

NOTE 17 - FISCAL ISSUES RELATING TO BUDGET REDUCTIONS

The State of California continues to suffer the effects of a recessionary economy. California school districts are reliant on the State of California to appropriate the funding necessary to continue the level of educational services expected by the State constituency. With the implementation of education trailer bill Senate Bill 4 of the 2009-10 Third Extraordinary Session (SBX3 4) (Chapter 12, Statutes of 2009), 14 percent of current year appropriations have now been deferred to a subsequent period, creating significant cash flow management issues for districts in addition to requiring substantial budget reductions, ultimately impacting the ability of California school districts to meet their goals for educational services.

REQUIRED SUPPLEMENTARY INFORMATION

MERCED UNION HIGH SCHOOL DISTRICT

**GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2009**

	Budgeted Amounts		Actual	Variances - Favorable (Unfavorable)	
	(GAAP Basis)				(GAAP Basis)
	Original	Final			
REVENUES					
Revenue limit sources	\$68,189,791	\$66,809,676	\$ 67,310,308	\$ 500,632	
Federal sources	6,097,238	6,732,996	10,734,013	4,001,017	
Other state sources	13,237,031	12,611,553	9,936,753	(2,674,800)	
Other local sources	1,928,422	2,047,319	2,687,879	640,560	
Total Revenues ¹	89,452,482	88,201,544	90,668,953	2,467,409	
EXPENDITURES					
Current					
Certificated Salaries	41,859,793	42,021,815	42,629,544	(607,729)	
Classified salaries	13,953,956	13,668,700	14,303,939	(635,239)	
Employee benefits	19,763,134	19,859,424	19,738,875	120,549	
Books and supplies	7,797,616	8,446,273	4,618,844	3,827,429	
Services and operating expenditures	7,517,859	8,263,384	7,762,972	500,412	
Other outgo	367,759	350,341	435,290	(84,949)	
Capital outlay	404,976	401,102	283,699	117,403	
Debt service	20,195	45,534	18,622	26,912	
Total Expenditures ¹	91,685,288	93,056,573	89,791,785	3,264,788	
Excess (Deficiency) of Revenues Over Expenditures	(2,232,806)	(4,855,029)	877,168	5,732,197	
Other Financing Sources (Uses):					
Transfers in	2,547,382	2,371,604	2,246,218	(125,386)	
Transfers out	(1,500,000)	(785,018)	(685,018)	100,000	
Net Financing Sources (Uses)	1,047,382	1,586,586	1,561,200	(25,386)	
NET CHANGE IN FUND BALANCES	(1,185,424)	(3,268,443)	2,438,368	5,706,811	
Fund Balance - Beginning	11,952,556	11,952,556	11,952,556	-	
Fund Balance - Ending	\$10,767,132	\$ 8,684,113	\$ 14,390,924	\$ 5,706,811	

¹ Excludes on behalf payments made to CalSTRS by the State of California.

MERCED UNION HIGH SCHOOL DISTRICT

**SPECIAL RESERVE FUND FOR OTHER THAN CAPITAL OUTLAY
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2009**

	Budgeted Amounts		Actual (GAAP Basis)	Variances -
	(GAAP Basis)			Favorable
	Original	Final		(Unfavorable) Final to Actual
REVENUES				
Other local sources	\$ 800,000	\$ 510,179	\$ 553,331	\$ 43,152
Total Revenues	800,000	510,179	553,331	43,152
EXPENDITURES				
Excess (Deficiency) of Revenues Over Expenditures	800,000	510,179	553,331	43,152
Other Financing Sources (Uses):				
Transfers out	(2,044,382)	(2,468,604)	(2,444,382)	(24,222)
Net Financing Sources (Uses)	(2,044,382)	(2,468,604)	(2,444,382)	(24,222)
NET CHANGE IN FUND BALANCES	(1,244,382)	(1,958,425)	(1,891,051)	18,930
Fund Balance - Beginning	18,039,619	18,039,619	18,039,619	-
Fund Balance - Ending	\$ 16,795,237	\$ 16,081,194	\$ 16,148,568	\$ 18,930

MERCED UNION HIGH SCHOOL DISTRICT

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB)
 FUNDING PROGRESS
 FOR THE YEAR ENDED JUNE 30, 2009**

Schedule of Funding Progress						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b - a / c)
June 23, 2008	\$ -	\$ 13,572,787	\$ 13,572,787	0%	\$ 59,956,720	22.64%

SUPPLEMENTARY INFORMATION

MERCED UNION HIGH SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
Adult Education - Priority 1-3	84.002A	14508	\$ 110,379
Adult Education - Priority 5	84.002	13978	9,385
Adult Education - English Literacy No Child Left Behind	84.002A	14109	61,687
Title I - Basic	84.010	14329	2,309,801
Title I - Program Improvement Corrective Action	84.010A	14579	370,636
Title II - Teacher Quality	84.367	14341	374,152
Title II - Enhancing Education through Technology	84.318	14334	15,822
Title III - Immigrant Education	84.365	14346	6,699
Title III - LEP	84.365	10084	154,186
Title IV - Drug Free Schools	84.186	14347	54,058
Title V - Innovative Strategies	84.298A	14354	72,400
Gear Up Program	84.334A	10088	343,890
Special Education Cluster			
Local Assistance	84.027	13379	1,870,156
ARRA IDEA Part B, Section 611, Local Assistance	84.391	15003	371,904
Subtotal, Special Education Cluster			<u>2,242,060</u>
Vocational Educational Grants			
Vocational and Applied Technology	84.048	13924	322,977
Secondary and Adult Literacy	84.048	13923	15,475
Total U.S. Department of Education			<u>6,463,607</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through CDE:			
Child Nutrition Cluster:			
Child Nutrition School Programs-Needy Breakfast	10.553	13526	597,529
Child Nutrition School Programs-Lunch	10.555	13391	2,204,518
Subtotal, Child Nutrition Cluster			<u>2,802,047</u>
Child Nutrition School Programs-Family Day Care	10.558	13665	10,574
Total U.S. Department of Agriculture			<u>2,812,621</u>

See accompanying note to supplementary information.

MERCED UNION HIGH SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, Continued
FOR THE YEAR ENDED JUNE 30, 2009**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through CDE:			
Quality Improvement	93.575	13979	\$ 3,095
Infant and Toddler Childcare	93.575	13942	68
Passed through California Department of Health Care Services:			
Medi-Cal Billing Option	93.778	10013	21,283
Total U.S. Department of Health and Human Services			<u>24,446</u>
Total Federal Financial Assistance			<u><u>\$ 9,300,674</u></u>

See accompanying note to supplementary information.

MERCED UNION HIGH SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2009

ORGANIZATION

The Merced Union High School District was established in 1915 and comprises the area of approximately 625 square miles located in Merced County. The District operates six high schools, one continuation school, one community day school, and one adult school. There were no boundary changes during the year.

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Ida M. Johnson	President	2009
Mike Carpenter	Vice President	2011
Sam Spangler	Clerk	2011
Dave Honey	Member	2009
Tim O'Neill	Member	2009

ADMINISTRATION

V. Scott Scambray	Superintendent
Diane C. Hockersmith, Ed.D	Deputy Superintendent
Yvonne Eagle	Director of Fiscal Services

See accompanying note to supplementary information.

MERCED UNION HIGH SCHOOL DISTRICT

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2009**

	Second Period Report	Annual Report
SECONDARY		
Regular classes	9,312.84	9,237.81
Continuation education	348.15	342.54
Home and hospital	8.58	10.28
Special education	295.28	291.54
Community Day	71.60	76.73
Total Secondary	10,036.45	9,958.90
CLASSES FOR ADULTS		
Concurrently enrolled	49.98	47.25
Not concurrently enrolled	630.77	650.14
Adults in correctional facilities	3.31	2.79
Total Classes for Adults	684.06	700.18
Grand Total	10,720.51	10,659.08
		Hours of Attendance
SUPPLEMENTAL HOURS		
K-12 core instruction		80,003
7-12 remedial instruction		463,396
Total Hours		543,399

See accompanying note to supplementary information.

MERCED UNION HIGH SCHOOL DISTRICT

**SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2009**

<u>Grade Level</u>	1982-83	1986-87	2008-09	<u>Number of Days</u>		<u>Status</u>
	<u>Actual</u> <u>Minutes</u>	<u>Minutes</u> <u>Requirement</u>	<u>Actual</u> <u>Minutes</u>	<u>Traditional</u> <u>Calendar</u>	<u>Multitrack</u> <u>Calendar</u>	
Grades 9 - 12	61,195	64,800				
Grade 9			64,800	180	N/A	Complied
Grade 10			64,800	180	N/A	Complied
Grade 11			64,800	180	N/A	Complied
Grade 12			64,800	180	N/A	Complied

See accompanying note to supplementary information.

MERCED UNION HIGH SCHOOL DISTRICT

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

Summarized below are the fund balance reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

	<u>General Fund</u>
FUND BALANCE	
Balance, June 30, 2009, Unaudited Actuals	\$ 16,176,453
Decrease in:	
Accounts receivable ABX4 3 ¹	<u>(1,785,529)</u>
Balance, June 30, 2009, Audited Financial Statement	<u>\$ 14,390,924</u>

¹ The adjustment is the ABX4 3 un-appropriated state categoricals as described in Note 16 - Subsequent Event.

See accompanying note to supplementary information.

MERCED UNION HIGH SCHOOL DISTRICT

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2009**

	(Budget) 2010 ¹	2009 ⁴	2008 ⁴	2007 ⁴
GENERAL FUND				
Revenues	\$ 81,116,307	\$ 90,668,953	\$ 91,442,841	\$ 89,713,732
Other sources and transfers in	303,000	2,246,218	201,749	508,324
Total Revenues and Other Sources	81,419,307	92,915,171	91,644,590	90,222,056
Expenditures	83,314,743	89,791,785	90,444,113	81,622,169
Other uses and transfers out	523,146	685,018	4,649,663	5,004,379
Total Expenditures and Other Uses	83,837,889	90,476,803	95,093,776	86,626,548
INCREASE/(DECREASE) IN FUND BALANCE	\$ (2,418,582)	\$ 2,438,368	\$ (3,449,186)	\$ 3,595,508
ENDING FUND BALANCE	\$ 11,972,342	\$ 14,390,924	\$ 11,952,556	\$ 15,401,742
AVAILABLE RESERVES²	\$ 2,593,498	\$ 2,714,304	\$ 2,852,813	\$ 2,598,797
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	3.09%	3.00%	3.00%	3.00%
LONG-TERM OBLIGATIONS	Not Available	\$ 48,583,307	\$ 23,642,779	\$ 24,300,192
AVERAGE DAILY ATTENDANCE AT P-2³	10,080	10,036	10,060	9,936

The General Fund balance has increased by \$774,711 over the past two years. The fiscal year 2009-10 budget projects a decrease of \$2,418,582 (14.95 percent). For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in two of the past three years but anticipates incurring an operating deficit during the 2009-10 fiscal year. Total long-term obligations have increased by \$24,283,115 over the past two years, primarily due to the issuance of General Obligation Bonds.

Average daily attendance has increased by 100 over the past two years. Additional growth of 44 ADA is anticipated during fiscal year 2009-10.

¹ Budget 2010 is included for analytical purposes only and has not been subjected to audit.

² Available reserves consist of all undesignated fund balances and all funds designated for economic uncertainty contained within the General Fund. California Education Code Section 33128.1 allows the District to include the ABX4 3 categorical accruals in their Available Reserves calculation. For the fiscal year 2008-09, \$1,720,115 of un-appropriated revenues have been included in the Available Reserves totals that are not reflected in the Audited Financial Statements. See Note 16 - Subsequent Event regarding the ABX4 3 state categorical accruals.

³ Excludes Adult Education ADA.

⁴ On behalf payments have been excluded from this schedule.

See accompanying note to supplementary information.

MERCED UNION HIGH SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS
 COMBINING BALANCE SHEET
 JUNE 30, 2009

	Adult Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
ASSETS				
Deposits and investments	\$ 509,335	\$ 525,920	\$ 287,710	\$ 531,133
Receivables	435,797	10,637	430,205	-
Due from other funds	14	122,697	3,387	358,749
Stores inventories	-	-	114,946	-
Total Assets	<u>\$ 945,146</u>	<u>\$ 659,254</u>	<u>\$ 836,248</u>	<u>\$ 889,882</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 37,482	\$ 1,707	\$ 269,449	\$ 34,287
Due to other funds	104,931	27,107	159,251	-
Deferred revenue	-	2,796	-	-
Total Liabilities	<u>142,413</u>	<u>31,610</u>	<u>428,700</u>	<u>34,287</u>
Fund Balances:				
Reserved for:				
Revolving cash	-	-	1,199	-
Stores inventories	-	-	114,946	-
Legally restricted balance	18,298	28,887	-	-
Unreserved:				
Designated	784,435	598,757	291,403	855,595
Undesignated, reported in:				
Debt service funds	-	-	-	-
Total Fund Balances	<u>802,733</u>	<u>627,644</u>	<u>407,548</u>	<u>855,595</u>
Total Liabilities and Fund Balances	<u>\$ 945,146</u>	<u>\$ 659,254</u>	<u>\$ 836,248</u>	<u>\$ 889,882</u>

See accompanying note to supplementary information.

Pupil Transportation Fund	Special Reserve Postemployment Benefits Fund	Capital Facilities Fund	County School Facilities Fund	Special Reserve Capital Fund	Bond Interest and Redemption Fund
\$ 182,077	\$ 403,264	\$ 2,970,105	\$ 1,077,027	\$ 1,070,911	\$ 2,555,878
-	-	6,685	-	-	-
-	-	830,391	257,501	491,011	-
-	-	-	-	-	-
<u>\$ 182,077</u>	<u>\$ 403,264</u>	<u>\$ 3,807,181</u>	<u>\$ 1,334,528</u>	<u>\$ 1,561,922</u>	<u>\$ 2,555,878</u>
\$ -	\$ -	\$ 46,218	\$ -	\$ 157,774	\$ 257,003
-	-	308	-	19,673	-
-	-	-	-	-	-
-	-	46,526	-	177,447	257,003
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
182,077	403,264	3,760,655	1,334,528	1,384,475	-
-	-	-	-	-	2,298,875
<u>182,077</u>	<u>403,264</u>	<u>3,760,655</u>	<u>1,334,528</u>	<u>1,384,475</u>	<u>2,298,875</u>
<u>\$ 182,077</u>	<u>\$ 403,264</u>	<u>\$ 3,807,181</u>	<u>\$ 1,334,528</u>	<u>\$ 1,561,922</u>	<u>\$ 2,555,878</u>

MERCED UNION HIGH SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET, Continued
JUNE 30, 2009**

	Tax Override Fund	Total Non-Major Governmental Funds
ASSETS		
Deposits and investments	\$ 69,275	\$ 10,182,635
Receivables	-	883,324
Due from other funds	-	2,063,750
Stores inventories	-	114,946
Total Assets	\$ 69,275	\$ 13,244,655
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	\$ -	\$ 803,920
Due to other funds	-	311,270
Deferred revenue	-	2,796
Total Liabilities	-	1,117,986
Fund Balances:		
Reserved for:		
Revolving cash	-	1,199
Stores inventories	-	114,946
Legally restricted balance	-	47,185
Unreserved:		
Designated	-	9,595,189
Undesignated, reported in:		
Debt service funds	69,275	2,368,150
Total Fund Balances	69,275	12,126,669
Total Liabilities and Fund Balances	\$ 69,275	\$ 13,244,655

See accompanying note to supplementary information.

MERCED UNION HIGH SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2009**

	Adult Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
REVENUES				
Federal sources	\$ 196,924	\$ 13,738	\$ 2,802,047	\$ -
Other state sources	1,799,631	522,641	317,911	358,749
Other local sources	443,431	24,942	812,973	16,416
Total Revenues	<u>2,439,986</u>	<u>561,321</u>	<u>3,932,931</u>	<u>375,165</u>
EXPENDITURES				
Current				
Instruction	1,550,592	439,812	-	-
Instruction-related activities:				
Supervision of instruction	103,352	-	-	-
School site administration	626,747	-	-	-
Pupil Services:				
Food services	-	9,906	3,606,630	-
All other pupil services	11,186	57,430	-	-
General administration:				
All other general administration	91,561	20,974	142,165	-
Plant services	138,930	494	16,090	238,323
Facility acquisition and construction	-	-	-	623,436
Debt service				
Principal	-	-	-	-
Interest and other	-	-	-	-
Total Expenditures	<u>2,522,368</u>	<u>528,616</u>	<u>3,764,885</u>	<u>861,759</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(82,382)</u>	<u>32,705</u>	<u>168,046</u>	<u>(486,594)</u>
Other Financing Sources (Uses):				
Transfers in	-	-	200,000	485,018
Transfers out	-	-	(201,836)	-
Net Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(1,836)</u>	<u>485,018</u>
NET CHANGE IN FUND BALANCES	<u>(82,382)</u>	<u>32,705</u>	<u>166,210</u>	<u>(1,576)</u>
Fund Balance - Beginning	885,115	594,939	241,338	857,171
Fund Balance - Ending	<u>\$ 802,733</u>	<u>\$ 627,644</u>	<u>\$ 407,548</u>	<u>\$ 855,595</u>

See accompanying note to supplementary information.

Pupil Transportation Fund	Special Reserve Postemployment Benefits Fund	Capital Facilities Fund	County School Facilities Fund	Special Reserve Capital Fund	Bond Interest and Redemption Fund
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
4,943	3,264	176,004	34,297	140,720	1,504,150
<u>4,943</u>	<u>3,264</u>	<u>176,004</u>	<u>34,297</u>	<u>140,720</u>	<u>1,504,150</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	10,386	-	-	-
-	-	266,789	-	14,999	-
-	-	61,548	-	5,665,463	-
-	-	116,167	-	-	1,400,000
-	-	8,382	-	-	360,371
-	-	<u>463,272</u>	-	<u>5,680,462</u>	<u>1,760,371</u>
<u>4,943</u>	<u>3,264</u>	<u>(287,268)</u>	<u>34,297</u>	<u>(5,539,742)</u>	<u>(256,221)</u>
-	400,000	-	-	-	-
-	-	-	-	-	-
-	<u>400,000</u>	-	-	-	-
4,943	403,264	(287,268)	34,297	(5,539,742)	(256,221)
177,134	-	4,047,923	1,300,231	6,924,217	2,555,096
<u>\$ 182,077</u>	<u>\$ 403,264</u>	<u>\$ 3,760,655</u>	<u>\$ 1,334,528</u>	<u>\$ 1,384,475</u>	<u>\$ 2,298,875</u>

MERCED UNION HIGH SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE, Continued
FOR THE YEAR ENDED JUNE 30, 2009**

	Tax Override Fund	Total Non-Major Governmental Funds
REVENUES		
Federal sources	\$ -	\$ 3,012,709
Other state sources	-	2,998,932
Other local sources	1,909	3,163,049
Total Revenues	<u>1,909</u>	<u>9,174,690</u>
EXPENDITURES		
Current		
Instruction	-	1,990,404
Instruction-related activities:		
Supervision of instruction	-	103,352
School site administration	-	626,747
Pupil Services:		
Food services	-	3,616,536
All other pupil services	-	68,616
General administration:		
All other general administration	-	265,086
Plant services	-	675,625
Facility acquisition and construction	-	6,350,447
Debt service		
Principal	-	1,516,167
Interest and other	-	368,753
Total Expenditures	<u>-</u>	<u>15,581,733</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>1,909</u>	<u>(6,407,043)</u>
Other Financing Sources (Uses):		
Transfers in	-	1,085,018
Transfers out	-	(201,836)
Net Financing Sources (Uses)	<u>-</u>	<u>883,182</u>
NET CHANGE IN FUND BALANCES	<u>1,909</u>	<u>(5,523,861)</u>
Fund Balance - Beginning	67,366	17,650,530
Fund Balance - Ending	<u>\$ 69,275</u>	<u>\$ 12,126,669</u>

See accompanying note to supplementary information.

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2009

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

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

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures and Changes in Fund Balance and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts represent Federal funds that have been recorded as revenues that have not been expended by June 30, 2009. The unspent balances are reported as legally restricted ending balances within the General Fund.

	<u>CFDA Number</u>	<u>Amount</u>
Total Federal Revenues - Statement of Revenues, Expenditures and Changes in Fund Balance:		
Reconciling item:		\$ 13,746,722
ARRA: State Fiscal Stabilization	84.394	(4,446,048)
Total Schedule of Expenditures of Federal Awards		<u>\$ 9,300,674</u>

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

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

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

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION

JUNE 30, 2009

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

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

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

SUPPLEMENTARY INFORMATION - UNAUDITED

MERCED UNION HIGH SCHOOL DISTRICT

**PRIVATE-PURPOSE SCHOLARSHIP TRUST FUNDS
COMBINING STATEMENT OF NET ASSETS - UNAUDITED
JUNE 30, 2009**

ASSETS	<u>Scholarships</u>
Deposits and investments	<u>\$ 1,407,100</u>
Total Cash and Assets	<u>\$ 1,407,100</u>
LIABILITIES	
NET ASSETS	
Reserved for scholarships	
Non-Expendable:	
Acker Scholarship	\$ 33,221
Alvernaz Scholarship	21,256
Beal Scholarship	11,299
Callister Scholarship	3,182
Cavaiani Scholarship	10,643
Chamberlain Scholarship	7,723
Landram Scholarship	27,850
Montano Scholarship	8,779
Mudd Scholarship	22,231
Okuda Scholarship	10,873
Roberts Scholarship	9,094
Roveto Scholarship	185,523
Weimer Scholarship	10,145
Expendable:	
AARP Scholarship	6,500
Barnes Scholarship	14,763
Bloss Scholarship	653,608
Brewer, James Memorial Scholarship	16,671
Brewer, Pamela Scholarship	16,672
Broussard Scholarship	3,326
Brown Scholarship	24,840
Church Scholarship	12,069
Crookham Scholarship	2,919
Dallas Scholarship	13,977
Elam Scholarship	32
Fancher Scholarship	74,743
Fite Scholarship	633
Gear Up Scholarship	(650)
Granado Scholarship	(147)
Jackson Scholarship	2,892
Joyner Scholarship	109
Kiwanis Scholarship	278
Lau Scholarship	7,081
Lockwood Scholarship	9,603
Martinelli Scholarship	282
McCollum Scholarship	3,350
McPherson-Hanson Scholarship	130
Mitchell Scholarship	145
Moberly Scholarship	5,850
Newhall Scholarship	31,248
Prince Scholarship	125,151
Purganan Scholarship	1,964
Rohm Scholarship	55
Sodexo Scholarship	139
Souza Scholarship	12,204
Yagi Scholarship	4,844
Total Net Assets Reserved for Scholarships	<u>\$ 1,407,100</u>

See accompanying note to supplementary information - unaudited.

MERCED UNION HIGH SCHOOL DISTRICT

**PRIVATE-PURPOSE SCHOLARSHIP TRUST FUNDS
COMBINING STATEMENT OF CHANGES IN NET ASSETS - UNAUDITED
FOR THE YEAR ENDED JUNE 30, 2009**

	<u>Acker Scholarship</u>	<u>Alvernaz Scholarship</u>	<u>Beal Scholarship</u>	<u>Callister Scholarship</u>	<u>Cavaiani Scholarship</u>
ADDITIONS					
Trust income	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions	-	-	-	-	-
Interest income	759	526	267	74	371
Total Additions	<u>759</u>	<u>526</u>	<u>267</u>	<u>74</u>	<u>371</u>
DEDUCTIONS					
Scholarships awarded	750	800	250	250	500
Miscellaneous	-	-	-	-	-
Total Deductions	<u>750</u>	<u>800</u>	<u>250</u>	<u>250</u>	<u>500</u>
Change in Net Assets	9	(274)	17	(176)	(129)
Net Assets - Beginning	<u>33,212</u>	<u>21,530</u>	<u>11,282</u>	<u>3,358</u>	<u>10,772</u>
Net Assets - Ending	<u>\$ 33,221</u>	<u>\$ 21,256</u>	<u>\$ 11,299</u>	<u>\$ 3,182</u>	<u>\$ 10,643</u>

See accompanying note to supplementary information - unaudited.

<u>Chamberlain Scholarship</u>	<u>Landram Scholarship</u>	<u>Montano Scholarship</u>	<u>Mudd Scholarship</u>	<u>Okuda Scholarship</u>	<u>Roberts Scholarship</u>	<u>Roveto Scholarship</u>
\$ -	\$ -	\$ 770	\$ -	\$ -	\$ -	\$ 24,985
-	-	-	-	-	-	-
101	728	193	596	280	215	4,780
<u>101</u>	<u>728</u>	<u>963</u>	<u>596</u>	<u>280</u>	<u>215</u>	<u>29,765</u>
3,000	1,150	600	1,000	300	-	25,000
-	-	-	-	-	-	-
<u>3,000</u>	<u>1,150</u>	<u>600</u>	<u>1,000</u>	<u>300</u>	<u>-</u>	<u>25,000</u>
(2,899)	(422)	363	(404)	(20)	215	4,765
<u>10,622</u>	<u>28,272</u>	<u>8,416</u>	<u>22,635</u>	<u>10,893</u>	<u>8,879</u>	<u>180,758</u>
<u>\$ 7,723</u>	<u>\$ 27,850</u>	<u>\$ 8,779</u>	<u>\$ 22,231</u>	<u>\$ 10,873</u>	<u>\$ 9,094</u>	<u>\$ 185,523</u>

MERCED UNION HIGH SCHOOL DISTRICT

**PRIVATE-PURPOSE SCHOLARSHIP TRUST FUNDS
COMBINING STATEMENT OF CHANGES IN NET ASSETS - UNAUDITED
FOR THE YEAR ENDED JUNE 30, 2009**

	Weimer Scholarship	Total Non-Expendable Scholarships
ADDITIONS		
Trust income	\$ -	\$ 25,755
Contributions	-	
Interest income	259	9,149
Total Additions	<u>259</u>	<u>34,904</u>
DEDUCTIONS		
Scholarships awarded	500	34,100
Miscellaneous	-	\$ -
Total Deductions	<u>500</u>	<u>34,100</u>
Change in Net Assets	(241)	804
Net Assets - Beginning	<u>10,386</u>	<u>361,015</u>
Net Assets - Ending	<u>\$ 10,145</u>	<u>\$ 361,819</u>

See accompanying note to supplementary information - unaudited.

MERCED UNION HIGH SCHOOL DISTRICT

**PRIVATE-PURPOSE SCHOLARSHIP TRUST FUNDS
COMBINING STATEMENT OF CHANGES IN NET ASSETS - UNAUDITED
FOR THE YEAR ENDED JUNE 30, 2009**

	AARP Scholarship	Barnes Scholarship	Bloss Scholarship	Brewer James Scholarship	Brewer Pamela Scholarship
ADDITIONS					
Trust income	\$ -	\$ 1,000	\$ 372,297	\$ 500	\$ 500
Contributions	-	-	-	16,000	16,000
Interest income	161	324	15,491	171	172
Total Additions	<u>161</u>	<u>1,324</u>	<u>387,788</u>	<u>16,671</u>	<u>16,672</u>
DEDUCTIONS					
Scholarships awarded	1,000	1,000	344,505	-	-
Miscellaneous	-	-	55	-	-
Total Deductions	<u>1,000</u>	<u>1,000</u>	<u>344,560</u>	<u>-</u>	<u>-</u>
Change in Net Assets	(839)	324	43,228	16,671	16,672
Net Assets - Beginning	<u>7,339</u>	<u>14,439</u>	<u>610,380</u>	<u>-</u>	<u>-</u>
Net Assets - Ending	<u>\$ 6,500</u>	<u>\$ 14,763</u>	<u>\$ 653,608</u>	<u>\$ 16,671</u>	<u>\$ 16,672</u>

See accompanying note to supplementary information - unaudited.

<u>Broussard Scholarship</u>	<u>Brown Scholarship</u>	<u>Church Scholarship</u>	<u>Crookham Scholarship</u>	<u>Dallas Scholarship</u>	<u>Elam Scholarship</u>	<u>Fancher Scholarship</u>
\$ 213	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 45,500
-	-	-	-	-	-	-
45	359	305	69	455	-	769
<u>258</u>	<u>359</u>	<u>305</u>	<u>69</u>	<u>455</u>	<u>-</u>	<u>46,269</u>
500	8,500	500	250	6,000	200	40,840
-	-	-	-	-	-	-
<u>500</u>	<u>8,500</u>	<u>500</u>	<u>250</u>	<u>6,000</u>	<u>200</u>	<u>40,840</u>
(242)	(8,141)	(195)	(181)	(5,545)	(200)	5,429
<u>3,568</u>	<u>32,981</u>	<u>12,264</u>	<u>3,100</u>	<u>19,522</u>	<u>232</u>	<u>69,314</u>
<u>\$ 3,326</u>	<u>\$ 24,840</u>	<u>\$ 12,069</u>	<u>\$ 2,919</u>	<u>\$ 13,977</u>	<u>\$ 32</u>	<u>\$ 74,743</u>

MERCED UNION HIGH SCHOOL DISTRICT

**PRIVATE-PURPOSE SCHOLARSHIP TRUST FUNDS
COMBINING STATEMENT OF CHANGES IN NET ASSETS - UNAUDITED
FOR THE YEAR ENDED JUNE 30, 2009**

	Fite Scholarship	Gear Up Scholarship	Granado Scholarship	Jackson Scholarship
ADDITIONS				
Trust income	\$ -	\$ -	\$ 250	\$ -
Contributions	-	-	-	-
Interest income	9	-	42	73
Total Additions	<u>9</u>	<u>-</u>	<u>292</u>	<u>73</u>
DEDUCTIONS				
Scholarships awarded	-	650	4,000	200
Miscellaneous	-	-	-	-
Total Deductions	<u>-</u>	<u>650</u>	<u>4,000</u>	<u>200</u>
Change in Net Assets	9	(650)	(3,708)	(127)
Net Assets - Beginning	<u>624</u>	<u>-</u>	<u>3,561</u>	<u>3,019</u>
Net Assets - Ending	<u>\$ 633</u>	<u>\$ (650)</u>	<u>\$ (147)</u>	<u>\$ 2,892</u>

See accompanying note to supplementary information - unaudited.

Joyner Scholarship	Kiwanis Scholarship	Lau Scholarship	Lockwood Scholarship	Martinelli Scholarship	McCollum Scholarship	McPherson- Hanson Scholarship
\$ -	\$ -	\$ -	\$ -	\$ 250	\$ -	\$ -
-	-	-	-	-	-	-
-	4	81	234	1	68	1
<u>-</u>	<u>4</u>	<u>81</u>	<u>234</u>	<u>251</u>	<u>68</u>	<u>1</u>
-	300	-	-	250	-	-
-	-	-	-	-	-	-
<u>-</u>	<u>300</u>	<u>-</u>	<u>-</u>	<u>250</u>	<u>-</u>	<u>-</u>
-	(296)	81	234	1	68	1
<u>109</u>	<u>574</u>	<u>7,000</u>	<u>9,369</u>	<u>281</u>	<u>3,282</u>	<u>129</u>
<u>\$ 109</u>	<u>\$ 278</u>	<u>\$ 7,081</u>	<u>\$ 9,603</u>	<u>\$ 282</u>	<u>\$ 3,350</u>	<u>\$ 130</u>

MERCED UNION HIGH SCHOOL DISTRICT

**PRIVATE-PURPOSE SCHOLARSHIP TRUST FUNDS
COMBINING STATEMENT OF CHANGES IN NET ASSETS - UNAUDITED
FOR THE YEAR ENDED JUNE 30, 2009**

	<u>Mitchell Scholarship</u>	<u>Moberly Scholarship</u>	<u>Newhall Scholarship</u>	<u>Prince Scholarship</u>	<u>Purganan Scholarship</u>
ADDITIONS					
Trust income	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions	-	-	-	-	-
Interest income	-	182	738	4,350	13
Total Additions	<u>-</u>	<u>182</u>	<u>738</u>	<u>4,350</u>	<u>13</u>
DEDUCTIONS					
Scholarships awarded	-	200	1,375	15,000	-
Miscellaneous	-	-	-	-	-
Total Deductions	<u>-</u>	<u>200</u>	<u>1,375</u>	<u>15,000</u>	<u>-</u>
Change in Net Assets	-	(18)	(637)	(10,650)	13
Net Assets - Beginning	<u>145</u>	<u>5,868</u>	<u>31,885</u>	<u>135,801</u>	<u>1,951</u>
Net Assets - Ending	<u>\$ 145</u>	<u>\$ 5,850</u>	<u>\$ 31,248</u>	<u>\$ 125,151</u>	<u>\$ 1,964</u>

See accompanying note to supplementary information - unaudited.

<u>Rohm Scholarship</u>	<u>Sodexo Scholarship</u>	<u>Souza Scholarship</u>	<u>Yagi Scholarship</u>	<u>Total Expendable Scholarships</u>	<u>Total (Memorandum Only)</u>
\$ -	\$ -	\$ -	\$ -	\$ 420,510	\$ 446,265
-	-	-	-	32,000	32,000
-	-	298	120	24,535	33,684
<u>-</u>	<u>-</u>	<u>298</u>	<u>120</u>	<u>477,045</u>	<u>511,949</u>
-	125	250	1,000	426,645	460,745
-	-	-	-	55	55
<u>-</u>	<u>125</u>	<u>250</u>	<u>1,000</u>	<u>426,700</u>	<u>460,800</u>
-	(125)	48	(880)	50,345	51,149
<u>55</u>	<u>264</u>	<u>12,156</u>	<u>5,724</u>	<u>994,936</u>	<u>1,355,951</u>
<u>\$ 55</u>	<u>\$ 139</u>	<u>\$ 12,204</u>	<u>\$ 4,844</u>	<u>\$ 1,045,281</u>	<u>\$ 1,407,100</u>

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION - UNAUDITED JUNE 30, 2009

NOTE 1 - PURPOSE OF SCHEDULES

Private Purpose Scholarship Trust Funds – Combining Statement of Net Assets and Combining Statement of Changes in Net Assets - Unaudited

These statements are included to provide additional information regarding the individual scholarship trust funds. Following is a description of the purpose and requirements for each of the scholarships.

Jim Acker Memorial Scholarship

This scholarship has been established in honor of Jim Acker who graduated from Merced High School in 1971, by the Jim Acker Memorial Scholarship Committee, to provide a scholarship for graduating seniors from Merced High School attending a two or four year college. Recipient of this scholarship will be selected by the Jim Acker Memorial Scholarship Committee based on citizenship, GPA of 3.0 or higher and participating in athletics.

John L. Alvernaz, Jr. Scholarship

The scholarship is established from the Estate of John L. Alvernaz, Jr. to be awarded to students from Merced Union High School District. No other criteria has been specified for determining eligibility for this scholarship.

Steven O. Beal Memorial Scholarship

This scholarship is established in the memory of Steven O. Beal, a former teacher of Industrial Arts in the Merced Union High School District, for eligible Industrial Arts Drafting students planning to attend a two or four-year accredited college or university. If no Industrial Arts Drafting students apply, the scholarship may be granted to any other deserving Industrial Arts student. The student must have a cumulative GPA of no less than 2.75 for the first seven semesters of high school. The awards are to be in increments of \$500 from any amount over the \$10,000 principle. This scholarship is non-renewable.

Eldon J. Callister Memorial Scholarship

This scholarship is established in honor of Eldon J. Callister to provide a scholarship each year to a student of Merced Union High School District who enrolls as a full time student at either Brigham Young University or Utah State University. An award is given annually if a graduating senior qualifies.

Ugo Cavaiani Scholarship

This scholarship has been set up per the request of Ugo Cavaiani to award scholarships to Livingston High School graduates aspiring to be nurses.

Chamberlain Scholarship

This scholarship was established by Naomi R. Chamberlain to provide annual scholarships to worthy graduates of Merced High School District. The following requirements are to be met by the District in managing the Chamberlain Scholarship:

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION - UNAUDITED JUNE 30, 2009

- The principal shall remain intact in the Trust and the income only would be distributed to worthy students.
- Scholarships are to be awarded once per year in early May or in the spring semester.
- The number of scholarships is dependent upon the amount of interest or income generated from the fund.
- Approximately one-half of the scholarships are to be awarded to students whose goal is to attend a two-year junior or community college and the remaining awarded to students whose goal is to attend a four-year college.
- Scholarships are to be awarded to students with a 3.0 GPA or better during their attendance at Merced High School.
- Consideration should be given to provide for automatic renewal for any student in continuous enrollment, up to four years at any college or university of his or her choice, as long as the student maintains a 3.0 or higher GPA.

Hugh K. Landram Memorial Scholarship

This scholarship fund is established in honor of Hugh K. Landram to provide for scholarships to be awarded to deserving students for their future education in an accredited college or university in the State of California.

John P. Montano Memorial Scholarship

This Scholarship is established in honor of John P. Montano, a former Physical Education teacher and coach in the Merced Union High School District. It provides scholarships to eligible students who competed in a varsity sport for a minimum of one season and are planning to attend a two- or four-year college or an accredited vocational school. The student must have a cumulative GPA of no less than 2.5 for the first seven semesters of high school. The awards are to be in increments of \$600 from any amount over the \$3,255 principal. This scholarship is non-renewable.

Jay Leroy Mudd Scholarship

This scholarship is established from the Estate of Jay Leroy Mudd. The corpus shall not be impaired, but the interest shall be paid, by way of scholarships, to students from Merced Union High School for the purpose of obtaining a college education. A board consisting of the President of Merced City Chamber of Commerce, the President of Merced Rotary club, the Senior Warden of F. & A.M. Lodge #99 of Merced, and the Master of F. & A.M. Lodge #749 of Merced shall have the exclusive right to select the recipients.

Okuda Memorial Scholarship

This scholarship has been established by Franklin Okuda in memory of his son Calvin Okuda. The scholarship has a balance of over \$10,000. This is a perpetual scholarship with only the interest being awarded in the form of scholarships. The interest earned shall be split equally for two scholarships, to one male and one female graduate from Livingston High School that meet the following criteria.

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION - UNAUDITED JUNE 30, 2009

- Scholarships are to be awarded to students with a 2.0 GPA or higher.
- Scholarships are to be awarded to students who are enrolled at a vocational school, community college, state college, or university.
- Scholarships are to be awarded to students who otherwise would not receive an award.

Donna Roberts Scholarship

This scholarship has been set up per the request of Eugene E. Roberts to provide a scholarship each year for a graduating senior of Yosemite High School intending to enroll in a community college the subsequent fall semester. Recipient of this scholarship shall be selected by Mr. Ron DeWong or his successor under criteria established by Mr. Eugene E. Roberts.

Rebecca Starr Roveto Scholarship

This scholarship is established to provide scholarships for graduating seniors from Atwater High School or any new high school serving Atwater students who plan to attend an accredited four year college or university in increments of \$1,000 beginning in 1998. The awards to be given will be selected by the scholarship committee designated by the Merced Union High School District to applicants who have a minimum of 3.3 GPA (4.0 scale).

Walter Weimer Family/Livingston Rotary International Scholarship

This scholarship has been established in honor of Walter Weimer, per the request of the Weimer Family, to provide a scholarship to a Livingston High School senior. Applicant to meet the following criteria: strong math and science or agricultural science, two or four year college (UC Merced preferred but not required), well-rounded student who participated in activities. Livingston High School site committee selects recipient. Award to be \$500 (non-renewable).

AARP Scholarship

This scholarship was established by the Atwater AARP Chapter #2194 in the amount of \$9,000 to be distributed at the rate of \$1,000 per year for four scholarships, \$250 each, until the \$9,000 with its earnings has been depleted. The scholarships are to be awarded to two academic majors and two vocational majors for studies accordingly in college. The Atwater High School Scholarship Committee selects several possible academic and vocational recipients from the pool of Atwater High School Scholarship applicants and refers the names to AARP Chapter #2194 for screening and selection.

Richard Barnes Memorial Scholarship

This scholarship was established by JoAnna Browning in the memory of Richard Barnes to provide scholarships for eligible student athletes of Atwater High School who graduate with a minimum 3.0 GPA. There will be one award recipient each year receiving \$500 if attending a two year college or \$1,000 if attending a four year college.

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION - UNAUDITED JUNE 30, 2009

Christine Bloss Memorial Scholarship

This scholarship is established in honor of Christine Bloss to provide scholarships for graduating seniors. It is awarded annually to students who attend a two-year or four-year college and are graduates of Merced High School, Atwater, Livingston, Yosemite, or the Adult School. The total amount awarded annually is determined by the Board of Trustees based on earnings from trust account and time certificates. Each campus receives a stipulated amount based on the number of graduates on a percentage basis. Each school determines the number of recipients and the amount of each award. Students must attend an accredited California college or university.

James Brewer Memorial Scholarship

This scholarship has been established in honor of James W. Brewer. A \$500 non-renewable scholarship will be awarded to an Atwater High School senior pursuing a career as a high school Science teacher. However, if no applicants meet the criteria, an applicant becoming a high school teacher will be considered. A minimum 3.5 GPA is preferred. The Brewer Family will select the recipient of the scholarship or designate the Atwater High School Committee to make the selection.

Pamela Brewer Scholarship

This scholarship has been established in honor of Pamela K. Brewer. A \$500 non-renewable scholarship will be awarded to an Atwater High School senior pursuing a career as a high school Social Studies or English teacher. However, if no applicants meet the criteria, an applicant becoming a high school teacher will be considered. A minimum 3.5 GPA is preferred. The Brewer Family will select the recipient of the scholarship or designate the Atwater High School Committee to make the selection.

Kiara Broussard Culinary Arts Scholarship

This scholarship has been established in honor of Kiara Broussard, per the request of Jennifer Broussard, to provide a scholarship for a graduating senior of Golden Valley High School or Buhach Colony/Merced High School if Golden Valley has no candidates. Applicant majoring in Culinary Arts (San Francisco Culinary Academy preferred). Recipient will be selected by family of Kiara Broussard. No required activities, minimum GPA 3.0, \$500 award (amount may change).

Brown Memorial Scholarship

This scholarship was established to provide scholarships to Merced and Golden Valley High School graduating seniors planning to attend a two or four-year accredited college or university in increments of \$1,000 per year for four years or completion of undergraduate degree. Scholarships will be awarded to students with a 3.3 cumulative GPA. College students must have a cumulative 2.5 GPA to remain eligible.

Church Scholarship

This scholarship has been established by Mr. and Mrs. Dan Church. The Scholarship Fund has accumulated approximately \$10,000. The interest accrued each year will be awarded to a graduating Golden Valley High School male or female student athlete who has participated in at least one varsity sport and plans to attend Merced College.

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION - UNAUDITED JUNE 30, 2009

Sybil Nye Crookham Memorial Scholarship

This scholarship is established in honor of Sybil Nye Crookham. The scholarship will be awarded to seniors at either Atwater or Buhach Colony High Schools with a GPA of at least 3.0. The \$250 scholarship will be awarded to one senior at each high school.

Dallas Athletic Scholarship (Heart Award)

This scholarship has been established at Atwater and Buhach Colony High Schools in the amounts of \$12,500 each. The \$1,000 scholarship will be awarded to a female athlete at each high school with a minimum GPA of 2.5 who has participated in athletics for a minimum of two years who will be enrolled in a two or four year college or vocational school.

Bill Elam Memorial Scholarship

This scholarship has been established in honor of Bill Elam by the Livingston Rotary Club and friends of Bill Elam for the purpose of awarding an annual scholarship to a graduating senior from Livingston High School. No other criteria has been specified for the eligibility requirements. The recipient of this scholarship will be selected by Earlane Elam and the Livingston High School Scholarship Committee.

Fred B. Fancher Scholarship

This scholarship is established in honor of Fred B. Fancher. Scholarships are granted annually to qualified graduates of the Merced Union High School District who have demonstrated an interest in the broad field of agriculture and who wish to pursue a course of study, directly or indirectly, related to the field of agriculture. Students must attend either a two-year or a four-year accredited California university or college. The amount awarded each year depends upon the availability of funds. Applicants may reapply each year and receive a scholarship for up to a maximum of four years.

Carter Fite Memorial Scholarship

This scholarship has been established in honor of Carter Fite. The scholarship awards began in the spring of 2002 and will be awarded until the funds are depleted. Scholarships in the amount of \$500 each will be awarded to two Atwater High School seniors pursuing a two or four year college degree and majoring in math or teaching (elementary or high school), preferably math teacher. A GPA of 3.0 or higher is required. Students may use the generic Merced Union High School District scholarship application. There are no financial need requirements. Atwater High School Scholarship Committee selects the recipients and the funds are distributed using the Bloss Scholarship guidelines. Staff will present the awards at the awards ceremony.

Gear Up Scholarship

This scholarship has been established by the Gear Up Program. Awards of \$150, \$300, or \$500 will be given to students enrolled in the Gear Up Program at Atwater and Buhach High Schools. The awards will be based on how well the students did in the program.

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION - UNAUDITED JUNE 30, 2009

Mario Granado Memorial Scholarship

This scholarship has been established in honor of Mario Granado, a former employee of Merced Union High School District, per the request of Cynthia Granado, to provide non-renewable scholarships to Livingston High School, Atwater High School, Buhach Colony High School, Merced High School and Golden Valley High School seniors with 2.0+ GPA. Applicants to meet any of the following criteria: pursuing a vocational program (priority), overcome obstacles or shown improvement, come from large family, participate in baseball or softball, complete 200+ hours of community service or plays a musical instrument. Awards to be \$1,000 at each campus.

Betty B. Jackson Scholarship

This scholarship has been established in honor of Betty B. Jackson, per the request of Lloyd Jackson, to provide a scholarship for the first year of college for a graduating senior of Merced High School enrolling in a junior college. Recipient of this scholarship shall be selected by the Merced High School Scholarship Committee under the criteria established by Mr. Lloyd Jackson as follows:

- Financial need as determined by the Scholarship Committee.
- Minimum GPA of 2.0 based on last 5 semesters of high school grades.
- Selection cannot be made until after the Bloss and Smith Scholarships are selected.

Joyner Scholarship

This scholarship was established by the California Association of School Business Officials to be given in the name of Lydia L. Lobdell, in the amount of \$500 each year for ten years. The recipient will be selected from one high school in the District on a rotating basis. The selection will be made by a committee of business teachers at the site. The scholarship may be awarded without qualification to any graduate in need of assistance to continue their education.

Livingston Kiwanis Club Scholarship

This scholarship has been established by the Kiwanis Club of Livingston-Delhi for the purposes of awarding a yearly academic scholarship to a Livingston High School Student, beginning in 1993. The criteria is to be established by the Livingston High School Scholarship Committee.

Karina Lau Memorial Scholarship

This scholarship is established in honor of Karina Lau. The scholarship is to be awarded to a senior at Livingston High School who was involved in the music or theater program and will enroll in a two or four year college with a music or theater related degree. The scholarship will be \$1,000 a year for up to four years as long as the student continues with a music or theater major.

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION - UNAUDITED JUNE 30, 2009

Lester L. Lockwood Memorial Scholarship

This scholarship has been established in honor of Lester L. Lockwood with the approval of Janelle Lockwood. The Lester Lockwood Memorial Scholarship will be awarded each year to a graduating senior from Yosemite High School who plans to continue his/her education at Merced College, or the previous year's recipient who is currently enrolled at Merced College and has reapplied for the scholarship. The scholarship may be renewed one time only in the manner described above. A current college student who is reapplying will be given precedence. In the event there is no reapplication, a graduating senior from Yosemite High School will be chosen by the administration and staff at Yosemite High School.

Angelo Martinelli Memorial Scholarship

This scholarship is established in honor of Angelo Martinelli to provide scholarships to eligible Merced High School graduates. Scholarships in the amount of \$250 will be awarded to students who have received a cumulative GPA of at least 2.75 in high school, the student may attend an accredited two-year, four-year, or a vocational school, and the student will be approved by the Martinelli family. This scholarship is non-renewable.

Karen McCollum Memorial Scholarship

This scholarship was established in honor of Karen McCollum to provide a scholarship to an eligible student who attended the GED program at the Merced Adult School and is enrolling with a GPA of 2.0 or higher and at least six or more units of work at Merced Community College. The \$500 scholarship will be disbursed in two separate payments annually (August and December).

Lucy McPherson-Hanson Memorial Scholarship

This scholarship was established to provide annual scholarships preferably to an African American student, or other minority student, graduating from Merced High School with a minimum grade point average of 2.5. This scholarship is non-renewable.

Herbert Mitchell Memorial Scholarship

This scholarship has been established in honor of Herbert Mitchell by his widow, Mrs. Winnie Mitchell, to provide a \$200 scholarship to a deserving graduate of Merced High School. The recipient of this scholarship shall be selected by the Merced High School Scholarship Committee under the criteria established by Mrs. Winnie Mitchell as follows:

- Financial need as determined by the Scholarship Committee.
- Must be a business student.
- Must be enrolling in a local community college.
- No minimum GPA requirements.

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION - UNAUDITED JUNE 30, 2009

Sanford Moberly Memorial Scholarship

This scholarship is established in memory of Sanford Moberly, an art teacher at Livingston High School. Each year an art student, selected by the Livingston High School Art Department, receives a \$200 award from this scholarship.

Henry Mayo Newhall Scholarship

This scholarship was established by a gift from the Henry Mayo Foundation. A scholarship in the amount of \$8,000 is awarded to the outstanding graduate of Merced High School who will attend a four-year college. Applicant selection criteria is the same as for the Bloss Scholarship.
Clarence Earl Prince Scholarship

This scholarship is established from the Estate of Clarence Earl Prince to provide for scholarships to be awarded to deserving students of Merced Union High School who intend to attend college during the next academic year immediately following high school graduation. The Superintendent of the Merced Union High School District, together with the Board of Directors of Merced Rotary Club shall choose applicants and set the standards by which the applicants will be chosen. The criteria can be changed form one year to the next.

Clarence Earl Prince Scholarship

This scholarship is established from the Estate of Clarence Earl Prince to provide for scholarships to be awarded to deserving students of Merced Union High School who intend to attend college during the next academic year immediately following high school graduation. The Superintendent of the Merced Union High School District, together with the Board of Directors of Merced Rotary Club shall choose applicants and set the standards by which the applicants will be chosen. The criteria can be changed form one year to the next.

Anastacia Purganan Memorial Scholarship

This scholarship has been established in honor of Anastacia Purganan to provide scholarships to eligible Livingston High School graduates, who intend to attend Merced College for two years on a full time basis in pursuing a career as a teacher or vocational program. Two scholarships, in the amount of \$1,000 each, will be awarded to approved students with a cumulative GPA between 2.0 to 3.0 in high school.

Ryan M. Rohm Memorial Scholarship

This scholarship is established in honor of Ryan Rohm to provide scholarships to eligible Golden Valley High School graduates. Three scholarships, in the amount of \$1,000 (\$500 per year for two years), will be awarded to approved students, to be eligible a student must have received a cumulative GPA of at least 3.0 in high school. This scholarship is non-renewable.

Sodexo Scholarship

Sodexo School Services has established this scholarship which will total two \$500 scholarships a year for students wishing to continue their education beyond high school in a vocational area. The scholarship will be rotated between all District high schools beginning with Buhach Colony and Golden Valley. The scholarship will be awarded to one student at each of the two high schools with at least a 2.5 GPA.

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION - UNAUDITED JUNE 30, 2009

Crystal Souza Memorial Scholarship

This scholarship is established in honor of Crystal Souza. The scholarship is to be awarded to seniors at Livingston High School and will total \$250 a year for two students. Each \$250 scholarship will be awarded to one agriculture major and one nursing major. The students must be attending Merced College.

George Yagi Memorial Scholarship

This scholarship has been established in honor of George Yagi, per the request of Floy Yagi, to provide a scholarship to a Livingston High School senior who intends to attend a two or four year college. Applicant to meet the following criteria: major in agriculture or related field, participation in FFA, minimum GPA of 3.0. Livingston High School site committee selects recipient. Award to be \$1000 for a four year college or \$500 for a two year college.

INDEPENDENT AUDITORS' REPORTS



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

Governing Board
Merced Union High School District
Merced, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Merced Union High School District as of and for the year ended June 30, 2009, which collectively comprise Merced Union High School District's basic financial statements and have issued our report thereon dated December 2, 2009. 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 Merced Union High School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Merced Union High School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Merced Union High School District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of Merced Union High School District in a separate letter dated December 2, 2009.

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, and Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Vannick, Trine, Day & Co, LLP

Fresno, California
December 2, 2009



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

Governing Board
Merced Union High School District
Merced, California

Compliance

We have audited the compliance of Merced Union High 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, 2009. Merced Union High 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 Merced Union High School District's management. Our responsibility is to express an opinion on Merced Union High 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 Merced Union High 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 Merced Union High School District's compliance with those requirements.

In our opinion, Merced Union High 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, 2009.

Internal Control Over Compliance

The management of Merced Union High 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 Merced Union High School District's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Merced Union High School District's internal control over compliance.

A *control deficiency* in a district's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a Federal program on a timely basis.

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

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

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

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, and Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Vannick, Trine, Day & Co, LLP

Fresno, California
December 2, 2009



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Governing Board
 Merced Union High School District
 Merced, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Merced Union High School District as of and for the year ended June 30, 2009, and have issued our report thereon dated December 2, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2008-09*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance reporting	8	Yes
Independent study	23	Yes
Continuation education	10	Yes
Adult education	9	Not Applicable ¹
Regional occupational centers and programs	6	Not Applicable
Instructional Time:		
School districts	6	Yes
County offices of education	3	Not Applicable
Community day schools	3	Yes ²
Morgan-Hart Class Size Reduction	7	Not Applicable ¹
Instructional Materials:		
General requirements	8	Yes ³
K-8 only	1	Not Applicable
9-12 only	1	Not Applicable ¹

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early retirement incentive	4	Not Applicable
Gann limit calculation	1	Yes
School Accountability Report Card	3	Yes
Mathematics and Reading Professional Development	4	Not Applicable ¹
Class Size Reduction Program (including in Charter Schools):		
General requirements	7	Not Applicable
Option one classes	3	Not Applicable
Option two classes	4	Not Applicable
District or charter schools with only one school serving K-3	4	Not Applicable
After School Education and Safety Program		
General requirements	4	Not Applicable
After school	4	Not Applicable
Before school	5	Not Applicable
Charter Schools:		
Contemporaneous records of attendance	1	Not Applicable
Mode of instruction	1	Not Applicable
Non classroom-based instruction/independent study	15	Not Applicable
Determination of funding for non classroom-based instruction	3	Not Applicable
Annual instruction minutes classroom based	3	Not Applicable

¹ This program is not required to be audited per flexibility provisions in SBX3 4.

² The number of procedures to be performed was reduced per flexibility provisions in SBX3 4. Section 19825 procedures (e) and (g) were not performed.

³ The number of procedures to be performed was reduced per flexibility provisions in SBX3 4. Section 19828.3 procedures (b), (c), and (e) were not performed.

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

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

Vannink, Trine, Day & Co, LLP

Fresno, California
December 2, 2009

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MERCED UNION HIGH SCHOOL DISTRICT

**SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2009**

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

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

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>84.027, 84.391</u>	<u>Special Education Cluster</u>
<u>84.010, 84.010A</u>	<u>Title I Programs</u>
<u>84.367</u>	<u>Title II, Teacher Quality</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>
Significant deficiencies identified not considered to be material weaknesses?	<u>None reported</u>
Type of auditors' report issued on compliance for State programs:	<u>Unqualified</u>

MERCED UNION HIGH SCHOOL DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2009**

None reported.

MERCED UNION HIGH SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009**

None reported.

MERCED UNION HIGH SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009**

None reported.

MERCED UNION HIGH SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2009**

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



December 2, 2009

Governing Board
Merced Union High School District
Merced, California

In planning and performing our audit of the financial statements of Merced Union High School District for the year ended June 30, 2009, 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 matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 2, 2009, on the financial statements of Merced Union High School District.

ATWATER HIGH SCHOOL

Cash Disbursements

Finding

In auditing the cash disbursement procedures at the site, we determined that internal controls over the disbursement process are lacking in certain respects. We noted several prohibited expenditures that were made by the various clubs throughout the year that were not for the general welfare of the students. Many of these expenditures appear to be for maintenance and upgrades; which are expenses that should be handled through the District Office.

Recommendation

The site should review the cash disbursement procedures outlined in the "Associated Student Body Accounting Manual and Desk Reference", published by FCMAT and the Districts own ASB Accounting Manual. All expenditures should be approved only if the purchased item is for the general welfare and benefit of the students. This will reduce the risk of unauthorized spending and using ASB monies for prohibited expenditures.

Vending Machines

Finding

The site has a milk vending machine that is controlled and stocked by site personnel. Currently, there is no reconciliation or accounting for the total funds that should have been collected from the machine, based on the number of cartons of milk sold since the last time the machine was stocked.

Recommendation

A vending machine sales analysis should be completed by whomever has responsibility for collecting the money from the machine and stocking it. This form should be forwarded to the bookkeeper along with the cash deposit given to the bookkeeper from the machine. The form should track the merchandise purchases to stock the machine, the item counts each time the machine is restocked, and the potential revenue that should have been collected from the machine based on the number of items sold for the period and the price of the items.

Inventory

Finding

During our testing we found that there is no inventory maintained for the coffee shop and the student store does not maintain an inventory for food items. In addition, the student store sales are not being reconciled to the ending inventory on a regular basis. Student store sales should be reconciled everyday it is opened to ensure that all items purchased for resale have been sold or accounted for.

Recommendation

According to the policies and procedures outlined in the “Accounting Procedures for Student Body Organizations”, prepared by the California Department of Education, a physical inventory should be taken quarterly under supervision of the student store advisor. The inventory listing should contain a description, unit cost, quantity, and extended value. This information is necessary in order to analyze sales activity, profits, and to determine if merchandise has been lost or stolen. The June 30 inventory report would also be used in the preparation of the financial statements prepared for the Associated Student Body of the site.

Cash Receipts

Finding

It appears that the site does not provide adequate controls over cash receipts. The following deficiencies were noted:

- Prenumbered receipts are not dated by the ASB Bookkeeper, and therefore, we were unable to determine the timeliness of deposits.
- Cash deposits forwarded from teachers or advisors to the Associated Student Body bookkeeper are not always accompanied by subreceipts written by the teachers or advisors.
- A deposit to the bank on November 3, 2008 included funds received on October 4, 2008.

Recommendation

In order to improve controls over cash receipts:

- Prenumbered receipts should be dated in order to verify that deposits are made in a timely fashion.
- Prenumbered receipts should be issued for all cash collected by teachers, advisors, and the site bookkeeper, that should include a specific description of the source of the funds.
- At a minimum, deposits should be made weekly to minimize the amount of cash held at the site. During weeks of high activity there may be a need to make more than one deposit. The District should establish guidelines for this procedure including the maximum cash on hand that should be maintained at the site. The ultimate responsibility, however, will reside with the site bookkeeper to make the deposits timely.

Revenue Potentials

Finding

We noted that revenue potential forms are on file, but with only preliminary “potential” income reported. The “recap” portion of the form that lists actual collections, compares actual income to the potential, and provides for discrepancies, is not being completed.

Recommendation

The site should implement procedures in which all revenue potential forms are completed in full. These forms supply an element of internal control without which it is difficult to determine the success of a fundraiser and to track money as it is spent and received. This allows an analysis of the fundraiser to be conducted, indicating to the staff the success or failure of the completed project. In addition, the form allows the bookkeeper to compare the advisors log of the deposits made for the fundraiser to the financial records of the appropriate account to ensure that all entries were correctly posted. The revenue potential form also indicates the weak control areas in the fundraising procedures, including lost or stolen merchandise, problems with collecting all moneys due and so forth. Revenue earned in the student body fund is subject to greater risk of loss due to the nature of the fundraising events and decentralization of the cash collection procedures. The revenue potential form and reconciliation are vital internal control tools that are used to document revenues, expenditures, potential revenue and actual revenue for fundraisers.

Ticket Sales

Finding

A ticket sales recap form is prepared and submitted with the remaining ticket roll and cash collections to the bookkeeper. However, tickets are not used for all events. The site has other events that could benefit by the controls involved with the use of tickets, but has not done so. Funds collected at these events do not have the proper receipting documentation to reconcile cash deposited to the bookkeeper.

Recommendation

The site should apply ticket sales procedures already done at sporting events to those events which also charges for admission. This will help provide supporting documentation for the reconciliation of funds deposited to the bookkeeper.

BUHACH COLONY HIGH SCHOOL

Cash Disbursements

Finding

In auditing the cash disbursement procedures at the site, we determined that internal controls over the disbursement process are lacking in certain respects. We noted several prohibited expenditures that were made by the various clubs throughout the year that were not for the general welfare of the students. Many of these

expenditures appear to be for maintenance and upgrades; which are expenses that should be handled through the District Office.

Recommendation

The site should review the cash disbursement procedures outlined in the “Associated Student Body Accounting Manual and Desk Reference”, published by FCMAT and the Districts own ASB Accounting Manual. All expenditures should be approved only if the purchased item is for the general welfare and benefit of the students. This will reduce the risk of unauthorized spending and using ASB monies for prohibited expenditures

Finding

We noted that some disbursement requests were dated after the date on the invoice. This would indicate that items are being purchased prior to their approval.

Recommendation

The site should review the cash disbursement procedures outlined in the “Associated Student Body Accounting Manual and Desk Reference”, published by FCMAT and the Districts own ASB Accounting Manual. In order to provide proper controls over spending, the site should take the necessary steps to ensure that expenditures are approved prior to the item being purchased.

Finding

The Student Body disbursements were not always adequately supported by proper documentation. We noted an expenditure that was paid without an itemized receipt or invoice. The vendor sent a written note on the amount of the reimbursement. Without the control document of a purchase request form, club spending might deplete the groups account causing deficit spending and the documentation that the required three signatures have been obtained prior to the disbursement being made. Receiving documentation ensures that the club/ASB received all of the items ordered. By initialing or signing an invoice, the bookkeeper knows that all the merchandise was received prior to paying for the order.

Recommendation

All invoices should be accompanied by a purchase order where applicable, and signed receiving documentation. This reduces the risk of unauthorized spending, and items being paid for and not received. Purchase orders provide clubs with documentation of items requested that can then be checked to the receiving documentation for accuracy and completeness, giving the clubs better control over their spending and inventory.

Finding

In reviewing the cash disbursements system, we noted that several of the disbursements we tested had an open purchase order/requisition form. Although the form had the proper authorizations for purchase, the description of items to be purchased was incomplete. The description of items to be purchased was blank with “Open Purchase Order for Reimbursement” written in. Without the control document of a purchase order form being completed before the item is purchased, club spending might deplete the groups’ account causing deficit spending.

Recommendation

All invoices should be accompanied by a completed purchase order form that is dated before the invoice date, indicating that the item has been approved before the purchase was made. This will reduce the risk of unauthorized spending and using ASB monies for prohibited expenditures. Three signatures, one being the student representative, are required pursuant to California Education Code Section 48933(5)(b) on all disbursements from a student body account prior to the purchase of merchandise or services. In addition, the number of reimbursements made out to the teachers/advisors should be limited and checks issued directly to vendors after receiving invoices.

Booster Clubs

Finding

We noted that there is Booster Club activities being run through the Associated Student Body accounts which is prohibited since the organization is not made up of students as outlined in the California Education Code. Specifically, the ASB paid an individual to build items for Booster Club activities. Associated Student Bodies are an integral part of the District and exist under the federal tax identification number of the District, the booster or parents clubs do not. Per the Internal Revenue Code regulations, they are separate entities much like a business and must apply for their own non-profit status and obtain their own tax identification number. In addition, the non-profit status must be obtained before the group can accept tax deductible donations.

Recommendation

The activity of the Booster Club must not be commingled with the Associated Student Body accounts; they should open their own checking account. Donations from the Booster Club are allowed as long as no monies are ever paid from the Student Body to the Booster Club. The Booster Club must apply for its own tax identification number and non-profit status as required by the Internal Revenue Code. The site should review the guidance relating to Booster Clubs and other outside organizations as outlined in the “Associated Student Body Accounting Manual and Desk Reference”, published by FCMAT.

GOLDEN VALLEY HIGH SCHOOL

Finding

During our audit of the student body funds, we noted the following deficiencies:

- Prohibited expenditures that were made by various clubs throughout the year that were not for the general welfare of the students. Specifically, staff shirts, monetary prizes, gift cards that were not signed for by the awardees, and gift cards to a needy family.
- Revenue potentials are incomplete. The portion of the form that is to be completed during and after the fundraiser is left blank.
- Cash deposits forwarded from teachers or advisors to the Associated Student Body bookkeeper are not deposited in a timely manner.
- The ASB bookkeeper is a signer on the bank account.
- Monies donated from retailers (i.e. Target) are used to help pay for individual students AP exam fees at the discretion of the principal.
- Inventory for the student store is not reconciled to sales.

Recommendation

In order to improve controls over the student body activities:

- All expenditures should be approved only if the purchased item is for the general welfare and benefit of the students. This will reduce the risk of unauthorized spending and using ASB monies for prohibited expenditures. If gift cards are given as awards to students, they should be signed for to ensure that all are given out. Gifts should not be given to families, instead, the funds can be donated to an appropriate charitable organization.
- The site should implement procedures in which all revenue potential forms are completed in full. These forms supply an element of internal control without which it is difficult to determine the success of a fundraiser and to track money as it is spent and received.
- Monies received by teachers/advisors should be deposited with the site bookkeeper at a minimum of weekly. Money should not be kept in the teachers'/advisors' desk or classroom for extended periods of time.
- The site should have a different district employee as a third signer on the ASB checking account to replace the ASB bookkeeper as long as the ASB bookkeeper is performing all other aspects of managing the ASB checking account. The ASB bookkeepers should be limited to informational access only on the account.
- Donated funds, if donated to the entire ASB should be allocated among the student body.
- According to the policies and procedures outlined in the "Accounting Procedures for Student Body Organizations", prepared by the California Department of Education, a physical inventory should be taken quarterly under supervision of the student store advisor. The inventory listing should contain a description, unit cost, quantity, and extended value. This information is necessary in order to analyze sales activity, profits, and to determine if merchandise has been lost or stolen. The June 30 inventory report would also be used in the preparation of the financial statements prepared for the Associated Student Body of the site.

LIVINGSTON HIGH SCHOOL - ASB

Revenue Potential

Finding

We noted that a majority of the Revenue Potential Forms are not completed at the end of the fundraising event to determine if the fundraiser was a success. The front page of the packet is an Approval Form for the fundraiser; this is regularly completed. However, the second page is the actual Revenue Potential Form and in reviewing these, we found that the majority of them are not completed.

Recommendation

Revenue earned in the Student Body fund is subject to greater risk of loss due to the nature of the fundraising events and decentralization of the cash collection procedures. Increased internal control procedures over these activities will assist the District in decreasing the risk of potential losses of the student body funds. One important internal control feature is the Revenue Potential Form. The Revenue Potential Form is important because it shows whether or not all the monies that should have been raised and turned in actually were based on the price of the item and number sold. The Form is also used to document overages and shortages or losses of merchandise. A secondary tool that the Form accomplishes is to allow the bookkeeper to compare the Advisors Log of the

deposits made for the fundraiser to the financial records of the appropriate account to ensure that all entries were correctly posted. The site administrator should ensure that these forms are completed and turned in to the bookkeeper at the conclusion of the fundraiser.

Timeliness of Deposits

Finding

We noted during our audit that money collected by advisors and teachers had been held for long periods prior to turning it in to the ASB Bookkeeper. Specifically funds that were collected by the teacher had subreceipts dates of September 29 but were not deposited to the Bookkeeper until November. Further, we noted the ASB Bookkeeper often also held the money for long periods of time prior to depositing it in the bank. Funds were deposited with the Bookkeeper October 20 that did not get deposited to the bank until November 21. This represents a weakness in controls over cash as money is kept in classrooms for weeks before turning it in to the ASB Bookkeeper.

Recommendation

Deposits to the bookkeeper should be made daily to minimize the amount of cash held in the classroom(s). At a minimum, deposits to the bank should be made weekly to minimize the amount of cash held at the site. During weeks of high cash activity there may be a need to make more than one deposit. The District should establish guidelines for this procedure including the maximum cash on hand that should be maintained at the site.

Segregation of Duties

Finding

The ASB bookkeeper is a signer on the ASB checking account. This represents a weakness in controls over cash because the ASB bookkeeper also receipts cash, deposits cash, reconciles the bank account, and writes checks in addition to being a signer on the account.

Recommendation

The site should remove the ASB bookkeeper from the list of signers for the ASB checking account and replace him with another district employee.

MERCED HIGH SCHOOL

Segregation of Duties

Finding

There is no segregation of duties at the site. The Associated Student Body bookkeeper is performing all accounting functions such as recording transactions, receipting deposits, making bank deposits, and reconciling the account.

Recommendation

The site should provide for adequate segregation of duties such as review of bank reconciliations by personnel independent of the receipting function. If this is not possible, the reconciliation should be reviewed and signed by a vice-principal or principal.

Budgeting

Finding

A majority of the individual clubs organized at the site do not incorporate budgets into their control procedures as suggested in the “Associated Student Body Accounting Manual and Desk Reference”, as published by FCMAT. During our audit, we determined that 20 out of the 26 clubs we tested did not prepare a budget for the 2008-09 school year.

Recommendation

The manual suggests preparing budgets to control and monitor the financial activities of the student body organizations. The individual clubs should prepare budgets at the beginning of the school year. Some aspects that the Accounting Manual highlights are:

- Updates will be necessary to the budget as circumstances change; the budgeting procedures are an ongoing process.
- The preliminary budget should include the beginning balances of the organizations, estimated sources of income, and estimated expenditures.
- The surplus left over in the accounts at the end of the year must be kept at a minimum. The underlying focus of a student body is that the funds generated by a group of students should be spent during the same year for the benefit of those students.
- The budget should be compared regularly to the actual financial activities of the organizations. One reason for this is to ensure that no organization enters into a deficit spending situation during the year.

Revenue Potentials

Finding

We noted that Revenue Potential Forms are on file, but are missing the Reconciliation Form that should be filled out and completed by the teacher/advisor during and after the fundraiser. Without this Reconciliation Form, the bookkeeper cannot reconcile to the corresponding deposit. These forms supply an element of internal control without which it is difficult to determine the success of a fundraiser and to track money as it is spent and received. This allows an analysis of the fundraiser to be conducted, indicating to the staff the success or failure of the completed project. In addition, the Form allows the bookkeeper to compare the Advisors Log of the deposits made for the fundraiser to the financial records of the appropriate account to ensure that all entries were correctly posted. The Revenue Potential Form also indicates the weak control areas in the fundraising procedures, including lost or stolen merchandise, problems with collecting all moneys due and so forth. Revenue earned in the student body fund is subject to greater risk of loss due to the nature of the fundraising events and decentralization of the cash collection procedures. The Revenue Potential Form and reconciliation are vital internal control tools that are used to document revenues, expenditures, potential revenue and actual revenue for fundraisers.

Recommendation

The site should complete a Revenue Potential Form and Reconciliation Form for every fundraiser the clubs/site participates in and keep this form on file for future reference.

Cash Disbursements

Finding

In auditing the cash disbursement procedures at the site, we determined that internal controls over the disbursement process are inadequate in some cases. We noted some prohibited expenditures that were made by the various clubs throughout the year that were not for the general welfare of the students. For example, a coach's retreat, a coach's conference, and staff luncheon.

Recommendation

The site should review the cash disbursement procedures outlined in the "Associated Student Body Accounting Manual and Desk Reference", published by FCMAT and the Districts own ASB Accounting Manual. All expenditures should be approved only if the purchased item is for the general welfare and benefit of the students. This will reduce the risk of unauthorized spending and using ASB monies for prohibited expenditures.

Student Store Inventory

Finding

The student store does not maintain an inventory of the merchandise purchased or sold, therefore no accountability exists for the inventory.

Recommendation

According to the policies and procedures outlined in the "Associated Student Body Accounting Manual and Desk Reference", published by FCMAT and the Districts own ASB Accounting Manual, a physical inventory should be taken quarterly under supervision of the student store advisor. The inventory listing should contain a description, unit cost, quantity, and extended value. This information is necessary in order to analyze sales activity, profits, and to determine if merchandise has been lost or stolen. The June 30 inventory report would also be used in the preparation of the financial statements prepared for the Associated Student Body of the site.

Club Dues

Finding

During our examination of the Associated Student Body constitutions, it was noted that money was collected from students who participated in the ASB clubs. This practice violates the State's laws regarding free education in public schools.

Governing Board
Merced Union High School District
December 2, 2009

Recommendation

The California Department of Education has concluded that extracurricular activities are part of a student educational program; therefore, a student cannot be charged dues to participate. Donations can be requested and fundraisers may be held to aid in paying for an activity, but students cannot be excluded because they do not pay a fee.

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

Vannink, Trine, Day & Co, LLP

Fresno, California
December 2, 2009

**MERCED UNION
HIGH SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2010

MERCED UNION HIGH SCHOOL DISTRICT

TABLE OF CONTENTS JUNE 30, 2010

FINANCIAL SECTION

Independent Auditors' Report	2
Management's Discussion and Analysis	4
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets	14
Statement of Activities	15
Fund Financial Statements	
Governmental Funds - Balance Sheet	16
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	17
Governmental Funds - Statement of Revenues, Expenditures, and Changes in Fund Balance	18
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	19
Fiduciary Funds - Statement of Net Assets	21
Fiduciary Funds - Statement of Changes in Net Assets	22
Notes to Financial Statements	23

REQUIRED SUPPLEMENTARY INFORMATION

General Fund - Budgetary Comparison Schedule	50
Schedule of Other Postemployment Benefits (OPEB) Funding Progress	51

SUPPLEMENTARY INFORMATION

Schedule of Expenditures of Federal Awards	53
Local Education Agency Organization Structure	55
Schedule of Average Daily Attendance	56
Schedule of Instructional Time	57
Reconciliation of Annual Financial and Budget Report With Audited Financial Statements	58
Schedule of Financial Trends and Analysis	59
Combining Statements - Non-Major Governmental Funds	
Combining Balance Sheet	60
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance	62
Combining Statements - Private Purpose Scholarship Trust Funds	
Combining Statement of Net Assets	64
Combining Statement of Changes in Net Assets	66
Note to Supplementary Information	71

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 Government Auditing Standards	83
Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133	85
Report on State Compliance	87

MERCED UNION HIGH SCHOOL DISTRICT

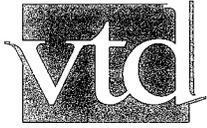
TABLE OF CONTENTS JUNE 30, 2010

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of Auditors' Results	90
Financial Statement Findings	91
Federal Award Findings and Questioned Costs	92
State Award Findings and Questioned Costs	93
Summary Schedule of Prior Audit Findings	94

FINANCIAL SECTION

This page left blank intentionally.



INDEPENDENT AUDITORS' REPORT

Board of Trustees
Merced Union High School District
Merced, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Merced Union High School District (the "District") as of and for the year ended June 30, 2010, 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 2009-10*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Merced Union High School District, as of June 30, 2010, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

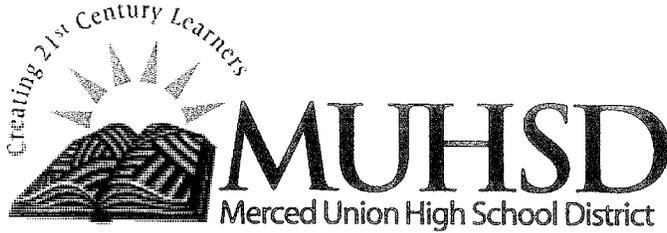
In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2010, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The required supplementary information, such as management's discussion and analysis on pages 4 through 13 and budgetary comparison and other postemployment information on pages 50 and 51, is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion.

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

Vannoy, Eric, Day & Co., LLP

Fresno, California
November 24, 2010



Castle Commerce Center, 3430 A Street, Atwater, California 95301
Mailing: PO Box 2147, Merced, California 95344
www.muhsd.k12.ca.us 209-385-6400 (Fax 209-385-6442)

Superintendent
V. Scott Scambray

Deputy Superintendent
Raynee J. Daley, Ed.D.

Assistant Superintendents
Sandra L. Schiber, Ed.D.
George S. Sziraki, Jr.

Board of Trustees
Mike Carpenter
Dave Honey
Ida M. Johnson
Tim O'Neill
Sam Spangler

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Merced Union High School District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2010. 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 Merced Union High School District (the District) 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 (including capital assets) as well as all liabilities (including long-term obligations). Additionally, certain eliminations have occurred as prescribed by the statement in regards to interfund activity, payables and receivables.

The *Fund Financial Statements* include statements for each of the two categories of activities: governmental and fiduciary.

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

The *Fiduciary Activities* are presented in the trust and agency funds, which focus reporting on net assets.

The Primary unit of the government is the Merced Union High School District.

MERCED UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2010

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Assets and the Statement of Activities

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

These two statements report the District's net assets and changes in them. Net assets are the difference between assets and liabilities, which is 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. Other factors to consider are changes in the District's property tax base and the condition of the District's facilities.

The relationship between revenues and expenses is the District's *operating results*. Since the governing 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 an important component in this evaluation.

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

Governmental Activities - The District's services are reported in this category. This includes the education of grade nine through grade twelve students, adult education students, the operation of child development activities, 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, 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.

Governmental Funds - All 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.

MERCED UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2010

THE DISTRICT AS TRUSTEE

Reporting the Merced Union High School 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, scholarships, and deferred compensation. The District's fiduciary activities are reported in the *Statements of Fiduciary Net Assets* and the *Statement of Changes in Fund 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 total net assets were \$96.3 million for the fiscal year ended June 30, 2010, and \$101.0 million for the fiscal year ended June 30, 2009; a decrease of \$4.7 million. Restricted net assets, which totaled \$28.6 million, 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. The analysis below focuses on the net assets (Table 1) and change in net assets (Table 2) of the District's governmental activities for the past two fiscal years.

Table 1

(Amounts in millions)	School District Activities		
	2010	2009	Variance
Current and other assets	\$ 56.8	\$ 72.5	\$ (15.7)
Capital assets	96.3	84.3	12.0
Total Assets	153.1	156.8	(3.7)
Current liabilities	9.6	7.2	2.4
Long-term obligations	47.2	48.6	(1.4)
Total Liabilities	56.8	55.8	1.0
Net assets			
Invested in capital assets, net of related debt	58.7	59.0	(0.3)
Restricted	28.6	34.7	(6.1)
Unrestricted	9.0	7.3	1.7
Total Net Assets	\$ 96.3	\$ 101.0	\$ (4.7)

The \$9.0 million in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations.

MERCED UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010

Changes in Net Assets

The results of this year's operations for the District as a whole are reported in the *Statement of Activities*. Table 2 takes the information from the Statement, rounds off the numbers, and rearranges them slightly so you can see our total revenues for the past two years along with the variance between the two fiscal years.

Table 2

(Amounts in millions)	School District Activities		
	2010	2009	Variance
Revenues			
Program revenues:			
Charges for services	\$ 1.0	\$ 1.2	\$ (0.2)
Operating grants and contributions	17.3	21.7	(4.4)
Capital grants and contributions	0.4	-	0.4
General revenues:			
Federal and state aid not restricted	56.9	57.8	(0.9)
Property taxes	14.6	14.4	0.2
Other general revenues	5.1	7.4	(2.3)
Total Revenues	95.3	102.5	(7.2)
Expenses			
Instruction related	66.3	70.8	(4.5)
Student support services	13.4	13.3	0.1
Administration	6.3	5.6	0.7
Maintenance and operations	9.5	9.7	(0.2)
Other	4.5	4.0	0.5
Total Expenses	100.0	103.4	(3.4)
Change in Net Assets	\$ (4.7)	\$ (0.9)	\$ (3.8)

Governmental Activities

As reported in the *Statement of Activities*, the cost of all of our governmental activities this year was \$100.0 million as compared to \$103.4 million in the prior year. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$14.6 million because the cost was paid by other governments and organizations who subsidized certain programs with grants and contributions (\$17.7 million). We paid for the remaining "public benefit" portion of our governmental activities with \$63.0 million in Federal and State funds and other revenues, like interest, general entitlements, and charges for services.

In Table 3, we have presented the cost and net cost of each of the District's largest functions - instruction, pupil support services, administration, maintenance and operations, and other miscellaneous functions. 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.

MERCED UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
 JUNE 30, 2010

Table 3

(Dollar amounts in millions)	Total Cost of Services		Net Cost of Services	
	2010	2009	2010	2009
Instruction	\$ 66.3	\$ 70.8	\$ 54.4	\$ 56.7
Pupil support services	13.4	13.3	8.0	7.0
Administration	6.3	5.6	5.6	4.9
Maintenance and operations	9.5	9.7	9.4	9.4
Other	4.5	4.0	3.9	2.5
Total	\$ 100.0	\$ 103.4	\$ 81.3	\$ 80.5

The District's net cost of activities for the current year was \$81.3 million as compared to \$80.5 million in the prior year. A majority of the District's expenses were related to the education and support of its students (67 percent).

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds, restricted and unrestricted, reported a combined fund balance of \$50.7 million, while the prior year reported a balance of \$65.2 million, which is a decrease of \$14.5 million from last year (Table 4).

Table 4

(Amounts in millions)	Balances and Activity	
	June 30, 2010	June 30, 2009
General Fund	\$ 14.7	\$ 14.4
Special Reserve Non-Capital Fund	16.6	16.1
Building Fund	9.8	22.6
Non-Major Funds	9.6	12.1
Total	\$ 50.7	\$ 65.2

The primary reasons for these decreases are:

- a. Our General Fund is our principal operating fund. The fund balance in the General Fund increased \$0.3 million to \$14.7 million. This increase is due to:
 1. Increased Federal revenue
 2. Decreased State revenue
 3. Decreased instructional related expenses
- b. Our Special Revenue Funds decreased from the prior year showing a net decrease of approximately \$0.5 million, primarily due to a transfer to the General Fund.
- c. The Debt Service Funds remained stable from last year.
- d. The Capital Projects Funds decreased \$14.2 million due to constructions costs.

MERCED UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010

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 on September 8, 2010. (A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report.)

CAPITAL ASSET & DEBT ADMINISTRATION

Capital Assets

At June 30, 2010, the District had \$96.3 million in a broad range of capital assets, including land, buildings, and furniture and equipment, while at June 30, 2009, the net fixed assets totaled \$84.3 million. This amount represents a net increase (including additions, deductions and depreciation) of just over \$12.0 million.

Table 5

(Amounts in millions)

	Governmental Activities		
	2010	2009	Variance
Land	\$ 13.3	\$ 13.3	\$ -
Construction in progress	19.8	9.4	10.4
Buildings and improvements	59.4	57.2	2.2
Equipment	3.8	4.4	(0.6)
Total	\$ 96.3	\$ 84.3	\$ 12.0

This year's additions of \$15.5 million included several vehicles, land, site and building improvements and classroom equipment such as computers.

Long-Term Obligations

At the end of this year, the District had \$50.8 million in debt outstanding versus \$48.6 million last year, an increase of 4.5 percent. The increase is primarily due to the District offering Public Agency Retirement System (PARS).

MERCED UNION HIGH SCHOOL DISTRICT

MANAGEMENT’S DISCUSSION AND ANALYSIS
 JUNE 30, 2010

Table 6

(Amounts in millions)	Governmental Activities		
	2010	2009	Variance
General obligation bonds	\$ 47.3	\$ 47.8	\$ (0.5)
Compensated absences	0.1	0.1	-
Postemployment benefits	1.3	0.6	0.7
Capital lease obligations	0.1	0.1	-
Public agency retirement system	2.0	-	2.0
Total	\$ 50.8	\$ 48.6	\$ 2.2

The State limits the amount of general obligation debt that District’s can issue to 35 percent of the assessed value of all taxable property within the District’s boundaries.

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2009-10 ARE NOTED BELOW:

Facilities Activities 2009-10

The District saw the fruition of the preceding years planning and grant application process with the modernization of Atwater High School Agricultural Program Classroom, Science Laboratory, Floral Design Studio, Metal Shop and Woodshop. The project completely refurbished the room’s surfaces, installed new plumbing, data connections, smart boards, improved lighting and air conditioning, and through Career Technical Education (CTE) grants new furniture and “state of the art” shop equipment. The work occurred from June through November at a cost of \$1,830,269. During that same Summer/Autumn period the District used local general obligation bond funds to replace nearly an acre of sidewalks and extensive storm water drainage pipes at Merced High School quad. The project began in June and continued through October at a cost of \$454,108.

The District's biggest project this year is the enlargement of Livingston High School with the addition of a 15,000 sq. ft. gymnasium and 12 classroom two- story building with ten offices. This project has qualified for matching state grant funding by the State Allocation Board, though no funds have been released. Current construction is funded by the local general obligation bond. The project includes the reconstruction of nearly all parking lots on campus and the creation of a new quad exterior plaza. The project began in November 2009 and is scheduled to be complete in January 2011, at a contract cost of \$12,228,660. Total expenditures for this project as of June 25, 2010 are \$6,564,391. The District began planning the next phase of Livingston High School enlargement in 2009-10 which will be built next year.

The next large projects this year are the construction of two 30m X 25yd swimming pools. One was built at Golden Valley High School and the other at Buhach Colony High School. Unlike the older schools in the District these sites lacked pools. The pools were built from November 2009 through June 2010 at a cost of \$4,560,475. The funding source is the local general obligation bond Measure M of November 2008.

The District has spent time and funds to plan its future projects in 2009-10. Plans and environmental review are complete for the construction of two gymnasiums. One will be built at Merced High School and the other at Atwater High School. The estimated cost of construction is approximately \$12,000,000. The District has also completed plans and environmental review for the enlargement of Golden Valley High School Stadium with the

MERCED UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010

addition of 3,150 seats to the 850 existing seats, construction of a rubberized track, artificial turf football field, and concession/restroom buildings. The estimated cost of construction is \$5,936,087 and will begin in August 2010.

Instructional Services Activities for 2009-10

2009-10 was the first year of implementation of programs designed to improve student achievement and address the Program Improvement criteria established in our LEA addendum.

The No Child Left Behind (NCLB) Act of 2001 requires that local educational agencies (school districts) identified for Program Improvement shall, not later than three months after being identified, develop or revise a district plan to address the nine essential components supporting academic student achievement. The nine essential components are:

1. Use of standards aligned English/reading/language arts and mathematics instructional materials, including intervention materials.
2. Instructional time – the master schedule and English/reading/language arts and mathematics course pacing schedules reflect effective use of instructional time and provide all students access to courses needed to master the required skills related to the CAHSEE.
3. School Administrator Training Program – Principals and APs participate in AB430 training.
4. Fully credentialed, highly qualified teachers for core subjects.
5. Student achievement monitoring system – every six to eight weeks. Assessment system which informs teachers and principals on student progress and effectiveness of instruction in all ELA (English Language Arts) and mathematics programs.
6. Ongoing instructional assistance and support for teachers (use of content experts and instructional coaches).
7. Monthly teacher collaboration by department facilitated by the principal.
8. Master schedule flexibility that accommodates sufficient numbers of intervention programs in ELA and mathematics.
9. Fiscal support – general and categorical funds of district are used appropriately to support the ELA and mathematics goals in the school plan.

Course and Unit Organizers

During the school year, all subjects that have California Standards Testing (CST) (13 subjects) have revamped their current Unit Organizers after the first year of implementation.

Benchmark Assessments (Intel-Assess)

The District contracted with Intel-Assess to provide a test bank from which teachers can select questions. The District implemented Benchmark Exams by quarter (similar to CST testing) last year.

MERCED UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2010

Professional Learning Communities

Teachers worked together in Professional Learning Communities last year in examining their outcomes on benchmarks exams. This effort allows teachers to have common ground for discussion regarding student outcomes.

Intervention Programs in ELA and Mathematics

Intervention programs were put in place in English Language and Mathematics. The programs address students identified as intensive or strategic learners. This was our first year of implementation of the program. We are expanding our efforts to the tenth grade and some science courses.

Professional Development

A concerted effort was made to align resources to the staff development needs. Our focus last year was in the following areas:

- 1.) Explicit Direct Instruction
- 2.) Instructional Coaching/Administrative Training
- 3.) Strategic Classes

Dr. Kate Kinsella was contracted, beginning in 2009-2010, to work with staff and administration on a "Critical Eye for Instruction" with a focus on ELA and EL.

Implementation of Mainstream Model

We implemented the INCLUSION PROGRAM for Special Education students. The new model, which is based on Response to Intervention (RTI), was implemented, beginning with freshman students, for the 2009-10 school year. In each subsequent year (2011, 2012, and 2013), the new Freshman class of "Inclusion Students" will continue to receive services under this new model with a gradual phase-out of pull-out services outside of the core by 2012.

We continued this effort with the English Language Learners. The more advanced English Language Learners (with a CELDT score of 3, 4 or 5) will mainstream using the inclusion model. Mainstreamed ELL students were provided language acquisition skills in the Strategic English Class. Instructors in all classes were expected to employ SDAIE methods to address the needs of all learners.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

At the time the District Budget was developed, a State budget was not yet adopted. Even though the State continues to struggle with on-going economic crisis issues, the District's 2010-11 Budget, adopted on June 21, 2010, was balanced and fiscally sound reflecting an unfunded (.39) percent cost-of-living adjustment (COLA) with a total deficit of 18.355%.

MERCED UNION HIGH SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010

This Budget included the lowest funded Base Revenue Limit per ADA (\$5,699.71) in recent memory, paired with a flattened projected enrollment pattern. The District anticipated this reduction in revenues and the Board took action to reduce expenditures by over \$2 million in several personnel areas.

This Budget also included \$931,096 in additional one-time State Fiscal Stabilization Funding (SFSF) funded under the American Recovery and Reinvestment Act (ARRA) of 2009. In addition, \$790,525 Title I Part A funding (ARRA), deferred to 2010-11 is included in the Budget. These one-time federal allocations will be used to offset expenditures that would typically be charged to the unrestricted general fund.

Along with the consistent application of responsible budget controls established by the Board of Trustees, the District will continue to maintain the minimum reserve requirement. In addition, district staff will continue to explore "revenue enhancement" strategies to boost our revenues. These strategies include, but are not limited to facilities use contracts, strategies for increasing attendance, and expanding the parameters of the MUHSD Educational Foundation. These strategies, combined with the launch of an energy awareness program to reduce expenditures will provide a framework for good stewardship of the resources we have.

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 any questions about this report or need any additional financial information, contact:

Raynee J Daley, Ed.D
Deputy Superintendent/CBO, Business Services
Merced Union High School District
3430 A Street, Castle Airport
Atwater, California 95301

Telephone number: (209) 385-6411
Email: rdaley@muhsd.k12.ca.us

MERCED UNION HIGH SCHOOL DISTRICT

STATEMENT OF NET ASSETS
 JUNE 30, 2010

	<u>Governmental Activities</u>
ASSETS	
Deposits and investments	\$ 38,050,563
Receivables	18,442,293
Stores inventories	229,694
Nondepreciable capital assets	33,083,436
Capital assets being depreciated	112,294,283
Accumulated depreciation	(49,037,186)
Total Assets	<u>153,063,083</u>
LIABILITIES	
Accounts payable	5,801,626
Deferred revenue	175,724
Current portion of long-term obligations	3,614,446
Noncurrent portion of long-term obligations	47,158,243
Total Liabilities	<u>56,750,039</u>
NET ASSETS	
Invested in capital assets, net of related debt	58,753,544
Restricted for:	
Debt service	2,261,928
Capital projects	5,094,929
Educational programs	2,392,251
Other activities	18,888,807
Unrestricted	8,921,585
Total Net Assets	<u>\$ 96,313,044</u>

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

MERCED UNION HIGH SCHOOL DISTRICT

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Instruction	\$ 53,427,811	\$ 457,041	\$ 9,472,693	\$ 397,951
Instruction-related activities:				
Supervision of instruction	3,290,101	10,747	1,254,086	-
Instructional library, media and technology	1,253,917	-	22,338	-
School site administration	8,316,661	193	308,979	-
Pupil services:				
Home-to-school transportation	2,602,027	-	496,931	-
Food services	3,864,076	522,990	3,348,635	-
All other pupil services	6,959,615	-	1,034,939	-
General administration:				
Data processing	1,171,730	-	1,930	-
All other general administration	5,177,450	24,332	707,808	-
Plant services	9,470,304	6,411	65,678	-
Ancillary services	1,524,241	-	-	-
Enterprise services	223,340	-	-	-
Interest on long-term obligations	2,131,247	-	-	-
Other outgo	622,264	42,567	569,640	-
Total Governmental-Type Activities	\$ 100,034,783	\$ 1,064,281	\$ 17,283,657	\$ 397,951

General revenues and subventions:

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

Subtotal, General Revenues

Change in Net Assets

- Net Assets - Beginning
- Net Assets - Ending

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

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

**Governmental
Activities**

\$	(43,100,126)
	(2,025,268)
	(1,231,579)
	(8,007,489)
	(2,105,096)
	7,549
	(5,924,676)
	(1,169,800)
	(4,445,310)
	(9,398,215)
	(1,524,241)
	(223,340)
	(2,131,247)
	(10,057)
	<u>(81,288,894)</u>
	12,406,864
	2,199,427
	8,206
	56,884,576
	313,610
	26,487
	<u>4,786,248</u>
	<u>76,625,418</u>
	(4,663,476)
	<u>100,976,520</u>
\$	<u>96,313,044</u>

MERCED UNION HIGH SCHOOL DISTRICT

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2010

	General Fund	Special Reserve Non-Capital Fund	Building Fund
ASSETS			
Deposits and investments	\$ 1,297,879	\$ 16,379,087	\$ 10,972,248
Receivables	17,792,844	-	2,330
Due from other funds	541,954	269,518	4,484
Stores inventories	182,826	-	-
Total Assets	\$ 19,815,503	\$ 16,648,605	\$ 10,979,062
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 4,252,327	\$ -	1,194,480
Due to other funds	672,616	-	-
Deferred revenue	175,606	-	-
Total Liabilities	5,100,549	-	1,194,480
FUND BALANCES			
Reserved for:			
Revolving cash	20,000	-	-
Stores inventories	182,826	-	-
Legally restricted	2,392,251	-	-
Unreserved:			
Designated	12,119,877	16,648,605	9,784,582
Undesignated, reported in:			
Debt service funds	-	-	-
Total Fund Balance	14,714,954	16,648,605	9,784,582
Total Liabilities and Fund Balances	\$ 19,815,503	\$ 16,648,605	\$ 10,979,062

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

Non-Major Governmental Funds	Total Governmental Funds
\$ 9,401,349	\$ 38,050,563
647,119	18,442,293
407,455	1,223,411
46,868	229,694
<u>\$ 10,502,791</u>	<u>\$ 57,945,961</u>
\$ 354,819	\$ 5,801,626
550,795	1,223,411
118	175,724
<u>905,732</u>	<u>7,200,761</u>
1,230	21,230
46,868	229,694
43,159	2,435,410
7,243,874	45,796,938
2,261,928	2,261,928
<u>9,597,059</u>	<u>50,745,200</u>
<u>\$ 10,502,791</u>	<u>\$ 57,945,961</u>

This page left blank intentionally.

MERCED UNION HIGH SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2010

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

Total Fund Balance - Governmental Funds		\$ 50,745,200
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	\$ 145,377,719	
Accumulated depreciation is	<u>(49,037,186)</u>	
Total capital assets		96,340,533
Long-term obligations at year end consist of:		
General obligation bonds - current interest bonds	(28,765,000)	
General obligation bonds - capital appreciation bonds	(18,544,411)	
Net OPEB obligation	(1,286,892)	
Compensated absences	(94,095)	
Capital lease obligations	(62,160)	
Public agency retirement system	<u>(2,020,131)</u>	
Total long-term obligations		<u>(50,772,689)</u>
Total Net Assets - Governmental Activities		<u>\$ 96,313,044</u>

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

MERCED UNION HIGH SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2010**

	General Fund	Special Reserve Non-Capital Fund
REVENUES		
Revenue limit sources	\$ 59,543,549	\$ -
Federal sources	7,404,719	-
Other state sources	16,699,209	-
Other local sources	1,328,532	230,519
Total Revenues	84,976,009	230,519
EXPENDITURES		
Current		
Instruction	47,800,994	-
Instruction-related activities:		
Supervision of instruction	3,196,473	-
Instructional library, media and technology	1,145,919	-
School site administration	7,604,132	-
Pupil Services:		
Home-to-school transportation	2,396,108	-
Food services	22,833	-
All other pupil services	6,748,579	-
General administration:		
Data processing	1,121,391	-
All other general administration	3,805,002	-
Plant services	8,557,244	-
Facility acquisition and construction	8,691	-
Ancillary services	1,524,241	-
Other outgo	622,264	-
Enterprise services	223,340	-
Debt service		
Principal	16,740	-
Interest and other	206	-
Total Expenditures	84,794,157	-
Excess (Deficiency) of Revenues Over Expenditures	181,852	230,519
Other Financing Sources (Uses):		
Transfers in	711,696	269,518
Other sources	-	-
Transfers out	(569,518)	-
Net Financing Sources (Uses)	142,178	269,518
NET CHANGE IN FUND BALANCES	324,030	500,037
Fund Balance - Beginning	14,390,924	16,148,568
Fund Balance - Ending	\$ 14,714,954	\$ 16,648,605

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

Building Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 59,543,549
-	3,671,361	11,076,080
-	2,306,201	19,005,410
274,468	3,655,746	5,489,265
<u>274,468</u>	<u>9,633,308</u>	<u>95,114,304</u>
-	1,863,983	49,664,977
-	71,566	3,268,039
-	-	1,145,919
-	575,093	8,179,225
-	37,062	2,433,170
-	3,796,646	3,819,479
-	67,929	6,816,508
-	-	1,121,391
-	266,307	4,071,309
-	538,966	9,096,210
13,088,357	2,175,554	15,272,602
-	-	1,524,241
-	-	622,264
-	-	223,340
-	1,527,226	1,543,966
-	1,087,892	1,088,098
<u>13,088,357</u>	<u>12,008,224</u>	<u>109,890,738</u>
<u>(12,813,889)</u>	<u>(2,374,916)</u>	<u>(14,776,434)</u>
-	300,000	1,281,214
-	257,003	257,003
-	(711,696)	(1,281,214)
-	(154,693)	257,003
<u>(12,813,889)</u>	<u>(2,529,609)</u>	<u>(14,519,431)</u>
<u>22,598,471</u>	<u>12,126,668</u>	<u>65,264,631</u>
<u>\$ 9,784,582</u>	<u>\$ 9,597,059</u>	<u>\$ 50,745,200</u>

MERCED UNION HIGH SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2010

Total Net Change in Fund Balances - Governmental Funds **\$ (14,519,431)**
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:

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

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

Capital outlays	\$ 15,415,471	
Depreciation expense	<u>(3,370,134)</u>	12,045,337

Interest on long-term obligations in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the Statement of Activities is the result of \$1,043,149 of additional accumulated interest that was accreted on the District's "capital appreciation" general obligation bonds. (1,043,149)

In the Statement of Activities compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for this item are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation earned was less than the amounts used by \$15,144. 15,144

In the statement of activities, certain operating expenses - early retirement are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). (2,020,131)

Repayment of debt principal is an expenditure in the governmental funds, but it reduces long-term obligations in the Statement of Net Assets and does not affect the Statement of Activities:

General obligation bonds		1,500,000
Capital lease obligations		43,966

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

MERCED UNION HIGH SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES, Continued
FOR THE YEAR ENDED JUNE 30, 2010

Postemployment benefits other than pensions (OPEB): In governmental funds, OPEB costs are recognized when the employer contributions are made. In the statement of activities, OPEB costs are recognized on the accrual basis. This year, the unfunded OPEB costs were:

Change in Net Assets of Governmental Activities

\$	(685,212)
\$	<u>(4,663,476)</u>

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

MERCED UNION HIGH SCHOOL DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2010**

	Private- Purpose Trusts	Agency		Total
	Scholarships	Deferred	Student	
		Compensation	Body	
ASSETS				
Deposits and investments	\$ 1,388,910	\$ 2,217,767	\$ 594,395	\$ 4,201,072
Total Assets	<u>\$ 1,388,910</u>	<u>\$ 2,217,767</u>	<u>\$ 594,395</u>	<u>\$ 4,201,072</u>
LIABILITIES				
Due to student groups and employees	\$ -	\$ 2,217,767	\$ 594,395	\$ 2,812,162
Total Liabilities	<u>-</u>	<u>2,217,767</u>	<u>594,395</u>	<u>2,812,162</u>
NET ASSETS				
Reserved for scholarships	1,388,910	-	-	1,388,910
Total Net Assets	<u>\$ 1,388,910</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,388,910</u>

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

MERCED UNION HIGH SCHOOL DISTRICT

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010

	<u>Private- Purpose Trusts Scholarships</u>
ADDITIONS	
Trust income	\$ 321,628
Contributions	36,167
Interest	147,408
Total Additions	<u>505,203</u>
DEDUCTIONS	
Scholarships awarded	523,966
Miscellaneous	575
Total Deductions	<u>524,541</u>
Change in Net Assets	(19,338)
Net Assets - Beginning	<u>1,408,248</u>
Net Assets - Ending	<u>\$ 1,388,910</u>

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

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Merced Union High School District was established in 1915 and comprises the area of approximately 625 square miles located in Merced County. The District operates under a locally-elected five-member Board form of government and provides educational services to grades 9 - 12 as mandated by the State and/or Federal agencies. The District is currently operating schools in the cities of Atwater, Livingston and Merced. The City of Merced has three campuses. Merced High School and Golden Valley High Schools have classes at the ninth through twelfth grade levels. East Campus Educational Center (ECEC) supports five educational programs: Yosemite High School which serves as the District's continuation school; Sequoia High School which serves as the District's community day school, Independence High School which provides independent study opportunities; classes for students from Merced and Golden Valley High School; and the main facility for the Adult School Program is located at ECEC. The City of Atwater has two campuses. Atwater High School has classes at the ninth through twelfth grade levels. Buhach Colony High School opened in August of 2001 with classes at the ninth through twelfth grade levels. The City of Livingston has one campus. Livingston High School has classes at the ninth through twelfth grade levels.

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

Basis of Presentation - Fund Accounting

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

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

Major Governmental Funds

General Fund The General Fund is the chief operating fund for all districts. It is used to account for the ordinary operations of a district. All transactions except those required or permitted by law to be in another fund are accounted for in this fund.

Special Reserve Non-Capital Fund The Special Reserve Non-Capital Fund is used primarily to provide for the accumulation of General Fund monies for general operating purposes other than for capital outlay (*Education Code Section 42840*).

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

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

Non-Major Governmental Funds

Special Revenue Funds The Special Revenue Funds are established to account for the proceeds from specific revenue sources (other than trusts or for major capital projects) that are restricted to the financing of particular activities:

Adult Education Fund The Adult Education Fund is used to account separately for Federal, State, and local revenues for adult education programs and is to be expended for adult education purposes only, except for State revenues which, as a result of Senate Bill 4 of the 2009-10 Third Extraordinary Session (SBX3 4), may be used for any educational purpose.

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

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

Deferred Maintenance Fund The Deferred Maintenance Fund is used to account separately for State apportionments and the District's contributions for deferred maintenance purposes (*Education Code* Sections 17582-17587) and for items of maintenance approved by the State Allocation Board, except for State apportionments which, as a result of Senate Bill 4 of the 2009-10 Third Extraordinary Session (SBX3 4), may be used for any educational purpose.

Pupil Transportation Equipment Fund The Pupil Transportation Equipment Fund is used to account separately for State and local revenues specifically for the acquisition, rehabilitation, or replacement of equipment used to transport students (*Education Code* Section 41852[b]).

Special Reserve Postemployment Benefits Fund The Special Reserve Postemployment Benefits Fund may be used pursuant to *Education Code* Section 42840 to account for amounts the District has earmarked for the future cost of postemployment benefits but has not contributed irrevocably to a separate trust for the postemployment benefit plan.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Capital Project Funds The Capital Project funds are established to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

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

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

Special Reserve Capital Outlay Fund The Special Reserve Capital Outlay Fund exists primarily to provide for the accumulation of General Fund monies for capital outlay purposes (*Education Code* Section 42840).

Debt Service Funds The Debt Service Funds are established to account for the accumulation of resources for and the payment of principal and interest on long-term obligations.

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

Tax Override Fund The Tax Override Fund is used for the repayment of voted indebtedness (other than Bond Interest and Redemption Fund repayments) to be financed from ad valorem tax levies.

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into two classifications: private-purpose trust funds and agency funds.

Trust funds are used to account for the assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's trust funds are scholarship accounts. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The District's agency fund accounts for student body (ASB) and deferred compensation accounts.

Basis of Accounting - Measurement Focus

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

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, of the District and for each governmental function, and exclude fiduciary activity. Direct expenses are those that are specifically associated with a service, program, or department and are therefore, clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the Statement of Activities, except for depreciation. 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 or business segment is self-financing or draws from the general revenues of the District. Eliminations have been made to minimize the double counting of internal activities.

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

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

Governmental Funds All governmental funds are accounted for using the 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 financial statements are prepared. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting, and the governmental fund financial statements, prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting.

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. Generally, available is defined as collectible within 60 days. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

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

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

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

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

Stores Inventories

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

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the District. The District maintains a capitalization threshold of \$5,000 for equipment and \$15,000 for land, buildings and land improvements. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

When purchased, such assets are recorded as expenditures in the governmental funds and capitalized in the government-wide statement of net assets. The valuation basis for capital assets is 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.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

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

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities columns of the Statement of Net Assets.

Compensated Absences

Compensated absences are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide statement of net assets as long-term obligations.

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

Accrued Liabilities and Long-Term Obligations

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

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

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.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

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.

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. The District has no related debt outstanding as of June 30, 2010. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The government-wide financial statements reports \$28,637,915 of restricted net assets, of which \$17,445,636 is restricted by enabling legislation.

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 and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented in the financial statements. Interfund transfers are eliminated in the governmental activities column of the *Statement of Activities*.

Estimates

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

Budgetary Data

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

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

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

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 Merced bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

New Accounting Pronouncements

In March 2009, the GASB issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The requirements of this Statement are effective for the financial statements for periods beginning after June 15, 2010. Early implementation is encouraged.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2010, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 38,050,563
Fiduciary funds	4,201,072
Total Deposits and Investments	<u>\$ 42,251,635</u>

Deposits and investments as of June 30, 2010, consist of the following:

Cash on hand and in banks	\$ 1,988,863
Cash in revolving	21,230
Investments	40,241,542
Total Deposits and Investments	<u>\$ 42,251,635</u>

Policies and Practices

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

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

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

General Authorizations

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Pool and having the Pool purchase a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2010

Segmented Time Distribution

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following schedule that shows the distribution of the District's investments by maturity:

Investment Type	Fair Value	12 Months or Less	13 - 24 Months	25 - 60 Months	More Than 60 Months
Mutual Funds	\$ 2,217,767	\$ 2,217,767	\$ -	\$ -	\$ -
County Pool	38,023,775	38,023,775	-	-	-
Total	<u>\$ 40,241,542</u>	<u>\$ 40,241,542</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of the year-end for each investment type.

Investment Type	Fair Value	Minimum Legal Rating	Rating as of Year End		
			AAA	Aa	Unrated
Mutual Funds	\$ 2,217,767	N/A	\$ -	\$ -	\$ 2,217,767
County Pool	38,023,775	N/A	-	-	38,023,775
Total	<u>\$ 40,241,542</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ 40,241,542</u>

N/A - Not applicable

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government Code. Investments in any one issuer that represent five percent or more of the total investments are as follows:

Issuer	Investment Type	Reported Amount
Merced School Employees Federal Credit Union	Mutual Funds	<u>\$ 2,217,767</u>

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2010, \$1,337,724 of the District's bank balances were exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

Custodial Credit Risk - Investments

This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. Of the investment in Mutual Funds of \$2,217,767, the District has a custodial credit risk exposure of \$2,217,767, because the related securities are uninsured, unregistered and held by the brokerage firm which is also the counterparty for these securities. The District does not have a policy limiting the amount of securities that can be held by counterparties.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2010, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Building Fund	Non-Major Governmental Funds	Total
Federal Government				
Categorical aid	\$ 1,801,361	\$ -	\$ 549,005	\$ 2,350,366
State Government				
Apportionment	12,768,187	-	46,983	12,815,170
Categorical aid	850,158	-	-	850,158
Lottery	333,113	-	-	333,113
Local Sources	2,040,025	2,330	51,131	2,093,486
Total	<u>\$ 17,792,844</u>	<u>\$ 2,330</u>	<u>\$ 647,119</u>	<u>\$ 18,442,293</u>

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2010

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

	Balance July 1, 2009	Additions	Deductions	Balance June 30, 2010
Governmental Activities				
Capital Assets not being depreciated				
Land	\$13,296,486	\$ -	\$ -	\$13,296,486
Construction in progress	9,439,180	12,065,525	1,717,755	19,786,950
Total Capital Assets Not Being Depreciated	<u>22,735,666</u>	<u>12,065,525</u>	<u>1,717,755</u>	<u>33,083,436</u>
Capital Assets being depreciated				
Land improvements	14,622,625	195,955	-	14,818,580
Buildings and improvements	80,366,683	4,666,600	-	85,033,283
Furniture and equipment	12,240,858	205,146	3,584	12,442,420
Total Capital Assets Being Depreciated	<u>107,230,166</u>	<u>5,067,701</u>	<u>3,584</u>	<u>112,294,283</u>
Less Accumulated Depreciation				
Land improvements	9,495,638	499,520	-	9,995,158
Buildings and improvements	28,289,079	2,131,485	-	30,420,564
Furniture and equipment	7,885,919	739,129	3,584	8,621,464
Total Accumulated Depreciation	<u>45,670,636</u>	<u>3,370,134</u>	<u>3,584</u>	<u>49,037,186</u>
Governmental Activities Capital Assets, Net	<u>\$84,295,196</u>	<u>\$13,763,092</u>	<u>\$1,717,755</u>	<u>\$96,340,533</u>

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
Instruction	\$ 2,377,648
Supervision of instruction	1,259
Instructional library, media, and technology	97,392
School site administration	71,349
Home-to-school transportation	206,841
Food services	83,287
All other pupil services	31,740
Data processing	75,025
All other general administration	73,391
Plant services	352,202
Total Depreciation Expenses Governmental Activities	<u>\$ 3,370,134</u>

MERCED UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 5 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund receivable and payable balances at June 30, 2010, are as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Major Governmental Funds		
General	\$ 541,954	\$ 672,616
Special Reserve Non-Capital	269,518	-
Building	4,484	-
Total Major Governmental Funds	<u>815,956</u>	<u>672,616</u>
Non-Major Governmental Funds		
Adult	399,706	114,197
Child Development	363	6,571
Cafeteria	7,386	16,981
Deferred Maintenance	-	4,350
Special Reserve Postemployment Benefits	-	408,696
Total Non-Major Governmental Funds	<u>407,455</u>	<u>550,795</u>
Total All Governmental Funds	<u>\$ 1,223,411</u>	<u>\$ 1,223,411</u>

Operating Transfers

Interfund transfers for the year ended June 30, 2010, consisted of the following:

The General Fund transferred to the Cafeteria Fund for a temporary loan.	\$ 300,000
The Cafeteria Fund transferred to the General Fund to pay back a temporary loan.	303,000
The General Fund transferred to the Special Reserve Non-Capital Fund for the Technology Department's future e-rate payments.	269,518
The Special Reserve Postemployment Benefits Fund transferred to the General Fund for future OPEB obligations.	408,696
Total	<u>\$ 1,281,214</u>

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2010

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2010, consisted of the following:

	General Fund	Building Fund	Non-Major Governmental Funds	Total
Vendor payables	\$ 2,785,782	\$ 1,194,480	\$ 354,819	\$ 4,335,081
Deferred payroll	1,466,545	-	-	1,466,545
Total	<u>\$ 4,252,327</u>	<u>\$ 1,194,480</u>	<u>\$ 354,819</u>	<u>\$ 5,801,626</u>

NOTE 7 - DEFERRED REVENUE

Deferred revenue at June 30, 2010, consists of the following:

	General Fund	Non-Major Governmental Funds	Total
Federal financial assistance	\$ 169,023	\$ 118	\$ 169,141
State categorical aid	6,583	-	6,583
Total	<u>\$ 175,606</u>	<u>\$ 118</u>	<u>\$ 175,724</u>

MERCED UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 8 - LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2009	Additions and Accretion	Deductions	Balance June 30, 2010	Due in One Year
1999 Current Interest Bonds, Series A	\$ 6,705,000	\$ -	\$ 1,500,000	\$ 5,205,000	\$ 1,615,000
1999 Capital Appreciation Bonds, Series A	16,039,114	917,727	-	16,956,841	-
2009 Current Interest Bonds, Series A	23,560,000	-	-	23,560,000	1,550,000
2009 Capital Appreciation Bonds, Series A	1,462,148	125,422	-	1,587,570	-
Compensated absences	109,239	-	15,144	94,095	-
Capital leases	106,126	-	43,966	62,160	45,420
Other postemployment benefits	601,680	685,212	-	1,286,892	-
Public agency retirement system	-	2,020,131	-	2,020,131	404,026
Total	<u>\$48,583,307</u>	<u>\$ 3,748,492</u>	<u>\$1,559,110</u>	<u>\$ 50,772,689</u>	<u>\$ 3,614,446</u>

The General Obligation Bonds are paid through the Bond Interest and Redemption Fund with proceeds from the assessment on property owners in the applicable boundaries. The Capital Leases are paid through the General Fund and Capital Facilities Fund. The compensated absences liability is paid through the fund that the employee worked. The Other Postemployment Benefits and Public Agency Retirement System obligations are paid for by the General Fund or the Special Reserve Postemployment Benefits Fund.

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Bond Issue	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2009	Accreted/ Issued	Redeemed	Bonds Outstanding June 30, 2010
Current Interest								
Series A	08/01/99	08/01/12	4.5 to 5.5%	\$ 10,610,000	\$ 6,705,000	\$ -	\$(1,500,000)	\$ 5,205,000
Capital Appreciation								
Series A	08/01/99	08/01/24	5.4 to 5.75%	13,573,396	16,039,114	917,727	-	16,956,841
Current Interest								
Series A	04/17/09	08/01/29	2.0 to 5.0%	23,560,000	23,560,000	-	-	23,560,000
Capital Appreciation								
Series A	04/17/09	08/01/34	5.4 to 5.75%	1,439,944	1,462,148	125,422	-	1,587,570
Total				<u>\$24,183,396</u>	<u>\$47,766,262</u>	<u>\$ 1,043,149</u>	<u>\$(1,500,000)</u>	<u>\$ 47,309,411</u>

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

The Merced Union High School District 1999 General Obligation Bonds, Series A, in the aggregate principal amount of \$24,631,061, are being issued by the Board of Supervisors of the County of Merced on behalf of the Merced Union High School District. The Series A Bonds represent a general obligation of the District, payable solely from ad valorem property taxes levied and collected by the County of Merced.

Interest with respect to the Current Interest Series A Bonds accrues from August 1, 1999, and is payable semiannually commencing February 1, 2000. The Capital Appreciation Series A Bonds are dated the date of delivery of the Series A Bonds and accrete interest from such date, compounded semiannually on February 1 and August 1 of each year, commencing February 1, 2000. Both series are issuable as fully registered Series A bonds.

The Merced Union High School District 2009 General Obligation Bonds, Series A, in the aggregate principal amount of \$24,999,994, are being issued by the Board of Supervisors of the County of Merced on behalf of the Merced Union High School District. The Series A Bonds represent a general obligation of the District, payable solely from *ad valorem* property taxes levied and collected by the County of Merced.

Interest with respect to the Current Interest Series A Bonds accrues from August 1, 2009, and is payable semiannually commencing February 1, 2010. The Capital Appreciation Series A Bonds are dated the date of delivery of the Series A Bonds and accrete interest from such date, compounded semiannually on February 1 and August 1 of each year, commencing August 1, 2009 with the exception of the Capital Accretion Bonds which mature May 1, 2034 which compound semiannually on May 1 and November 1 of each year, commencing November 1, 2009. Both series are issuable as fully registered Series A bonds.

Debt Service Requirements to Maturity

1999 Current Interest, Series A - Payment Summary

The bonds mature through 2013 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2011	\$ 1,615,000	\$ 220,776	\$ 1,835,776
2012	1,730,000	140,035	1,870,035
2013	1,860,000	48,825	1,908,825
Total	<u>\$ 5,205,000</u>	<u>\$ 409,636</u>	<u>\$ 5,614,636</u>

MERCED UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

1999 Capital Appreciation, Series A - Accretion Summary:

Maturity	Accreted Obligation	Unaccreted Interest	Final Maturity
2014	\$ 1,704,400	\$ 295,600	\$ 2,000,000
2015	1,646,225	398,775	2,045,000
2016	1,589,654	500,346	2,090,000
2017	1,536,520	603,480	2,140,000
2018	1,479,245	705,755	2,185,000
2019-2023	6,648,926	5,046,074	11,695,000
2024-2025	2,351,871	2,703,129	5,055,000
Total	\$ 16,956,841	\$ 10,253,159	\$ 27,210,000

2009 Current Interest, Series A - Payment Summary:

The bonds mature through 2030 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2011	\$ 1,550,000	\$ 1,054,587	\$ 2,604,587
2012	120,000	1,067,887	1,187,887
2013	150,000	1,064,437	1,214,437
2014	195,000	1,029,262	1,224,262
2015	275,000	1,022,212	1,297,212
2016-2020	2,865,000	4,875,342	7,740,342
2021-2025	6,390,000	3,886,800	10,276,800
2026-2030	12,015,000	1,639,125	13,654,125
Total	\$ 23,560,000	\$ 15,639,652	\$ 39,199,652

2009 Capital Appreciation, Series A - Accretion Summary:

Maturity	Accreted Obligation	Unaccreted Interest	Final Maturity
2031	\$ 888,224	\$ 2,391,776	\$ 3,280,000
2032	444,366	3,065,634	3,510,000
2033	-	-	-
2034	-	-	-
2035	254,980	3,925,020	4,180,000
Total	\$ 1,587,570	\$ 9,382,430	\$ 10,970,000

Compensated Absences

The long-term portion of compensated absences for the District at June 30, 2010, amounted to \$94,095.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2010

Capital Leases

The District has entered into agreements to lease various facilities and equipment. Such agreements are, in substance, purchases (capital leases) and are reported as capital lease obligations. The District's liability on lease agreements with options to purchase is summarized below:

Balance, July 1, 2009	\$ 106,126
Payments	43,966
Balance, June 30, 2010	<u>\$ 62,160</u>

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2011	\$ 48,128
2012	17,327
Total	<u>65,455</u>
Less: Amount Representing Interest	3,295
Present Value of Minimum Lease Payments	<u>\$ 62,160</u>

Other Postemployment Benefit (OPEB) Obligation

The District implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* during the year ended June 30, 2009. The District's annual required contribution (ARC) was \$2,456,578 for the year ended June 30, 2010. The District made a contribution of \$1,222,305, which was less than the actuarial "pay-as-you-go" costs. The actuarial estimated "pay-as-you-go" amount of \$1,771,366 was deducted from the ARC, then the current year obligation of \$685,212 was added to the prior year balance of \$601,680, which resulted in a net OPEB obligation of \$1,286,892. See Note 11 for additional information regarding the OPEB Obligation and the postemployment benefit plan.

Early Retirement

The District has obligations to the Public Agency Retirement System totaling \$2,020,131 for early retirement incentives granted to terminated employees. Payments will be made annually in the amount of \$404,026 for five years.

MERCED UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 9 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Special Reserve Non-Capital Fund	Building Fund	Non-Major Governmental Funds	Total
Reserved					
Revolving cash	\$ 20,000	\$ -	\$ -	\$ 1,230	\$ 21,230
Stores inventory	182,826	-	-	46,868	229,694
Restricted programs	2,392,251	-	-	43,159	2,435,410
Total Reserved	<u>2,595,077</u>	<u>-</u>	<u>-</u>	<u>91,257</u>	<u>2,686,334</u>
Unreserved					
Designated					
Economic uncertainties	2,509,232	-	-	-	2,509,232
Other designations	9,610,645	16,648,605	9,784,582	7,243,874	43,287,706
Total Designated	<u>12,119,877</u>	<u>16,648,605</u>	<u>9,784,582</u>	<u>7,243,874</u>	<u>45,796,938</u>
Undesignated	-	-	-	2,261,928	2,261,928
Total Unreserved	<u>12,119,877</u>	<u>16,648,605</u>	<u>9,784,582</u>	<u>9,505,802</u>	<u>48,058,866</u>
Total	<u><u>\$14,714,954</u></u>	<u><u>\$16,648,605</u></u>	<u><u>\$ 9,784,582</u></u>	<u><u>\$ 9,597,059</u></u>	<u><u>\$50,745,200</u></u>

NOTE 10 - EXPENDITURES (BUDGET VERSUS ACTUAL)

At June 30, 2010, the following District major fund exceeded the budgeted amounts in total as follows:

Fund	Expenditures and Other Uses		
	Budget	Actual	Excess
General			
Certificated Salaries	\$ 40,072,809	\$ 41,004,842	\$ 932,033
Classified Salaries	\$ 13,617,671	\$ 14,082,382	\$ 464,711
Employee benefits	\$ 16,154,489	\$ 16,981,161	\$ 826,672
Other outgo	\$ 219,975	\$ 361,308	\$ 141,333

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE 11 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

Plan Description

The Postemployment Benefit Plan (the "Plan") is a single-employer defined benefit healthcare plan administered by the Merced Union High School District. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of 124 retirees and beneficiaries currently receiving benefits and 781 active plan members.

Contribution Information

For fiscal year 2009-10, the District contributed \$1,771,366 to the plan, all of which was used for current premiums (approximately 98 percent of total premiums). Plan members receiving benefits contributed \$19,473, or approximately two percent of the total premiums. Contributions made by retirees range between \$15 to \$700 per month depending on when the retiree retired and the coverage selected.

Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	\$ 2,456,578
Contributions made	<u>(1,771,366)</u>
Increase in net OPEB obligation	685,212
Net OPEB obligation, beginning of year	<u>601,680</u>
Net OPEB obligation, end of year	<u><u>\$ 1,286,892</u></u>

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the past two years are as follows:

<u>Year Ended</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
2010	\$ 2,456,578	72.11	\$ 1,286,792
2009	\$ 1,263,610	52.38	\$ 601,680

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

Funded Status and Funding Progress

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, investment returns, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2009, actuarial valuation, the entry age normal method was used. The actuarial assumptions included a five percent investment rate of return (net of administrative expenses), based on the plan being funded in an irrevocable employee benefit trust invested in a combined equity and fixed income portfolio. Healthcare cost trend rates used four percent. The UAAL is being amortized at a level percentage of payroll method. The remaining amortization period at July 1, 2009, was 30 years.

NOTE 12 - RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2010, the District contracted with Self Insured Schools of California for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Workers' Compensation

For fiscal year 2010, the District participated in the Merced County Schools Insurance Group, an insurance purchasing pool. The intent of the Merced County Schools Insurance Group is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Merced County Schools Insurance Group. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in the Merced County Schools Insurance Group. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage. A participant will then either receive money from or be required to contribute to the "equity-pooling fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the Merced County Schools Insurance Group. Participation in the Merced County Schools Insurance Group is limited to districts that can meet the Merced County Schools Insurance Group selection criteria.

Employee Medical Benefits

The District has contracted with the Self Insured Schools of California Health and Welfare Program to provide employee health benefits. Self Insured Schools of California Health and Welfare Program is a shared risk pool comprised of agencies within California. Rates are set through an annual calculation process. The District pays a monthly contribution, which is placed in a common fund from which claim payments are made for all participating districts. Claims are paid for all participants regardless of claims flow. The Board of Directors has a right to return monies to a district subsequent to the settlement of all expenses and claims if a district withdraws from the pool.

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

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

CalSTRS

Plan Description

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

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

Funding Policy

Active plan members are required to contribute 8.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2009-2010 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the fiscal years ending June 30, 2010, 2009, and 2008, were \$3,451,224, \$3,583,153, and \$3,625,242, respectively, and equal 100 percent of the required contributions for each year.

CalPERS

Plan Description

The District contributes to the School Employer Pool under the CalPERS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS 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, California 95811.

Funding Policy

Active plan members are required to contribute 7.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2009-2010 was 9.709 percent of covered payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2010, 2009, and 2008, were \$1,358,164, \$1,307,728, and \$1,229,695, respectively, and equal 100 percent of the required contributions for each year.

Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by social security or an alternative plan. The District has elected to use its alternative plan. Contributions made by the District and an employee vest immediately. The District contributes 6.2 percent of an employee's gross earnings. An employee is required to contribute 6.2 percent of his or her gross earnings to the pension plan.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$1,722,618 (4.267 percent of annual payroll). Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budget amounts reported in the *General Fund - Budgetary Comparison Schedule*.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from Federal and State agencies in the form of grants. 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, 2010.

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, 2010.

Operating Leases

The District has entered into various operating leases for buildings and equipment with lease terms in excess of one year. None of these agreements contain purchase options. All agreements contain a termination clause providing for cancellation after a specified number of days written notice to lessors, but it is unlikely that the District will cancel any of the agreements prior to the expiration date.

MERCED UNION HIGH SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

Construction Commitments

As of June 30, 2010, the District had the following commitments with respect to the unfinished capital projects:

Capital Projects	Remaining Construction Commitment	Expected Date of Completion
DISC Office Re-roof	\$ 48,456	July 2010
District Office Re-roof	43,434	July 2010
Golden Valley High School Re-surface Gym Floors	12,679	July 2010
Buchach Colony High School Re-Surface Gym Floors	12,679	July 2010
Golden Valley High School Painting	143,139	July 2010
Livingston High School Safety System	50,000	August 2010
AHS Gym	5,000,543	June 2012
Atwater High School Replace Drainage/Pavement	335,235	June 2011
Atwater High School Safety System	50,000	August 2010
Buhach Colony High School Safety System	97,040	August 2010
Buhach Colony High School Swimming Pool	29,601	July 2010
East Campus Educational Center Alarm/Intercom	68,490	August 2010
East Campus Educational Center School Safety System	67,815	August 2010
Golden Valley High School Safety System	50,000	August 2010
Golden Valley High School Stadium	4,997,601	December 2010
Golden Valley High School Swimming Pool	17,305	July 2010
Livingston High School Enlargement Phase I	5,697,358	June 2011
Merced High School Gym	5,010,157	June 2012
Merced High School Safety System	42,224	August 2010
Bellevue Road Area High School Site	75,653,290	June 2013
Tyler & Gerard Road School Site	131,856,335	June 2017
Sequoia High School Safety System	172,042	August 2010
Atwater, Livingston, Merced, Buhach Colony, Golden Valley and East Campus Lighting	44,158	August 2010
Total	<u>\$ 229,499,581</u>	

**NOTE 15 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWERS
AUTHORITIES**

The District is a member of the Self-Insured Schools of California (SISC III), the Self-Insured Schools of California (SISC II), and the Merced County Schools Insurance Group (MCSIG) public entity risk pools. The District pays an annual premium to each entity for its health, workers' compensation, and property liability coverage. The relationships between the District and pools are such that they are not component units of the District for financial reporting purposes.

MERCED UNION HIGH SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

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

The District has no appointed members to the governing board of SISC III.

During the year ended June 30, 2010, the District made payment of \$8,841,262 to SISC III for medical, dental and vision insurance.

The District has no appointed members to the governing board of SISC II.

During the year ended June 30, 2010, the District made payment of \$452,912 to SISC II for property and liability insurance.

The District has appointed two members to the governing board of MCSIG.

During the year ended June 30, 2010, the District made payment of \$662,847 to MCSIG for workers' compensation insurance.

NOTE 16 - FISCAL ISSUES RELATING TO BUDGET REDUCTIONS

The State of California continues to suffer the effects of a recessionary economy. California school districts are reliant on the State of California to appropriate the funding necessary to continue the level of educational services expected by the State constituency. With the implementation of education trailer bill Senate Bill 16 of the 2009-10 Fourth Extraordinary Session (SBX4 16) (Chapter 23, Statutes of 2009), 25 percent of current year appropriations have now been deferred to a subsequent period, creating significant cash flow management issues for districts in addition to requiring substantial budget reductions, ultimately impacting the ability of California school districts to meet their goals for educational services.

This page left blank intentionally.

REQUIRED SUPPLEMENTARY INFORMATION

This page left blank intentionally.

MERCED UNION HIGH SCHOOL DISTRICT

GENERAL FUND
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		Actual	Variances - Favorable (Unfavorable)
	Original	Final		Final to Actual
REVENUES				
Revenue limit sources	\$59,017,064	\$59,117,001	\$ 59,543,549	\$ 426,548
Federal sources	7,613,056	8,908,886	7,404,719	(1,504,167)
Other state sources	11,488,710	11,999,031	14,976,591	2,977,560
Other local sources	1,666,967	1,509,301	1,328,532	(180,769)
Total Revenues ¹	<u>79,785,797</u>	<u>81,534,219</u>	<u>83,253,391</u>	<u>1,719,172</u>
EXPENDITURES				
Current				
Certificated Salaries	39,662,716	40,072,809	41,004,842	(932,033)
Classified salaries	13,514,263	13,617,671	14,082,382	(464,711)
Employee benefits	16,184,544	16,154,489	16,981,161	(826,672)
Books and supplies	8,047,126	7,585,996	3,908,259	3,677,737
Services and operating expenditures	8,046,420	7,139,141	6,646,673	492,468
Other outgo	245,438	219,975	361,308	(141,333)
Capital outlay	113,979	118,979	69,968	49,011
Debt service	40,981	40,981	16,946	24,035
Total Expenditures ¹	<u>85,855,467</u>	<u>84,950,041</u>	<u>83,071,539</u>	<u>1,878,502</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(6,069,670)</u>	<u>(3,415,822)</u>	<u>181,852</u>	<u>3,597,674</u>
Other Financing Sources (Uses):				
Transfers in	303,000	804,026	711,696	(92,330)
Transfers out	523,146	792,664	(569,518)	(1,362,182)
Net Financing Sources (Uses)	<u>826,146</u>	<u>1,596,690</u>	<u>142,178</u>	<u>(1,454,512)</u>
NET CHANGE IN FUND BALANCES	<u>(5,243,524)</u>	<u>(1,819,132)</u>	<u>324,030</u>	<u>2,143,162</u>
Fund Balance - Beginning	<u>14,390,924</u>	<u>14,390,924</u>	<u>14,390,924</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 9,147,400</u>	<u>\$12,571,792</u>	<u>\$ 14,714,954</u>	<u>\$ 2,143,162</u>

¹ Excludes on behalf payments made to CalSTRS by the State of California.

MERCED UNION HIGH SCHOOL DISTRICT

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB)
 FUNDING PROGRESS
 FOR THE YEAR ENDED JUNE 30, 2010**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age Normal (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
May 1, 2010	\$ -	\$ 10,638,763	\$ 10,638,763	0%	\$ 58,268,287	18.26%
June 23, 2008	\$ -	\$ 13,572,787	\$ 13,572,787	0%	\$ 59,956,720	22.64%

SUPPLEMENTARY INFORMATION

This page left blank intentionally.

MERCED UNION HIGH SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
Adult Education - Basic	84.002A	14508	\$ 132,383
Adult Education - Secondary Education	84.002	13978	13,132
Adult Education - English Literacy	84.002A	14109	76,734
No Child Left Behind			
Title I Cluster			
Title I - Part A, Basic	84.010	14329	2,275,088
Title I - Non-Program Improvement LEAs	84.010	14796	1,262
ARRA: Title I - Part A, Basic	84.389	15005	853,299
Subtotal, Title I Cluster			<u>3,129,649</u>
Title II - Improving Teacher Quality	84.367	14341	463,241
Title II - Enhancing Education through Technology	84.318	14334	21,903
Title III - Immigrant Education	84.365	14346	51,805
Title III - LEP	84.365	10084	143,270
Title IV - Drug Free Schools	84.186	14347	61,095
Title X - McKinney-Vento Homeless Children	84.196	14332	42,536
Title X - ARRA McKinney-Vento Homeless Children	84.387	15007	1,694
Gear Up Program	84.334A	10088	59,161
Advanced Placement Fee Assistance	84.330	14831	136,464
ARRA: State Fiscal Stabilization Fund	84.394	24997	4,131,267
Special Education Cluster			
Local Assistance	84.027	13379	1,943,697
ARRA IDEA Part B, Section 611, Local Assistance	84.391	15003	116,321
Subtotal, Special Education Cluster			<u>2,060,018</u>
Vocational Educational Grants			
Vocational and Applied Technology	84.048	13924	336,188
Secondary and Adult Literacy	84.048	13923	11,486
Total U.S. Department of Education			<u>10,872,026</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through CDE:			
Child Nutrition Cluster:			
Child Nutrition School Programs-Needy Breakfast	10.553	13526	776,850
Child Nutrition School Programs-Lunch	10.555	13391	2,483,116
Food Distribution Program	10.555	13391	240,285
Subtotal, Child Nutrition Cluster			<u>3,500,251</u>
Child Nutrition School Programs-Family Day Care	10.558	13665	18,242
ARRA: Child Nutrition - Equipment Assistance Grant	10.579	15006	54,942
Total U.S. Department of Agriculture			<u>3,573,435</u>

See accompanying note to supplementary information.

MERCED UNION HIGH SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, Continued
FOR THE YEAR ENDED JUNE 30, 2010**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through CDE:			
Infant and Toddler Childcare	93.575	13942	\$ 2,796
Passed through California Department of Health Care Services:			
Medi-Cal Billing Option	93.778	10013	<u>68,279</u>
Total U.S. Department of Health and Human Services			<u>71,075</u>
Total Federal Financial Assistance			<u><u>\$ 14,516,536</u></u>

See accompanying note to supplementary information.

MERCED UNION HIGH SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2010

ORGANIZATION

The Merced Union High School District was established in 1915 and comprises the area of approximately 625 square miles located in Merced County. The District operates six high schools, one continuation school, one community day school, and one adult school. There were no boundary changes during the year.

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Mike Carpenter	President	2011
Sam Spangler	Vice President	2011
Dave Honey	Clerk	2013
Ida M. Johnson	Member	2013
Tim O'Neill	Member	2013

ADMINISTRATION

V. Scott Scambray	Superintendent
Raynee J. Daley, Ed.D.	Deputy Superintendent/CBO
Yvonne Eagle	Director of Fiscal Services

See accompanying note to supplementary information.

MERCED UNION HIGH SCHOOL DISTRICT

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Second Period Report</u>	<u>Annual Report</u>
SECONDARY		
Regular classes	9,261.22	9,195.00
Continuation education	290.83	292.01
Home and hospital	15.66	16.98
Special education	255.91	253.27
Community Day	115.42	117.52
Grand Total	<u>9,939.04</u>	<u>9,874.78</u>

See accompanying note to supplementary information.

MERCED UNION HIGH SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2010

Grade Level	1982-83	Reduced 1982-83	1986-87	Reduced 1986-87	2009-10	Number of Days		Status
	Actual Minutes	Actual Minutes	Minutes Requirement	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Grades 9 - 12	61,195	59,495	64,800	63,000				
Grade 9					64,856	180	N/A	Complied
Grade 10					64,856	180	N/A	Complied
Grade 11					64,856	180	N/A	Complied
Grade 12					64,856	180	N/A	Complied

See accompanying note to supplementary information.

MERCED UNION HIGH SCHOOL DISTRICT

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010**

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2010.

See accompanying note to supplementary information.

MERCED UNION HIGH SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010

	(Budget)			
	2011 ¹	2010 ³	2009 ³	2008 ³
GENERAL FUND				
Revenues	\$ 80,590,861	\$ 83,253,391	\$ 90,668,953	\$ 91,442,841
Other sources and transfers in	1,553,000	711,696	2,246,218	201,749
Total Revenues and Other Sources	82,143,861	83,965,087	92,915,171	91,644,590
Expenditures	85,396,136	83,071,539	89,791,785	90,444,113
Other uses and transfers out	300,000	569,518	685,018	4,649,663
Total Expenditures and Other Uses	85,696,136	83,641,057	90,476,803	95,093,776
INCREASE/(DECREASE) IN FUND BALANCE	\$ (3,552,275)	\$ 324,030	\$ 2,438,368	\$ (3,449,186)
ENDING FUND BALANCE	\$ 11,162,679	\$ 14,714,954	\$ 14,390,924	\$ 11,952,556
AVAILABLE RESERVES ²	\$ 2,570,884	\$ 2,509,232	\$ 2,714,304	\$ 2,852,813
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	3.00%	3.00%	3.00%	3.00%
LONG-TERM OBLIGATIONS	Not Available	\$ 50,772,689	\$ 48,583,307	\$ 23,642,779
AVERAGE DAILY ATTENDANCE AT P-2	9,939	9,939	10,036	10,060

The General Fund balance has increased by \$2,762,398 over the past two years. The fiscal year 2010-11 budget projects a decrease of \$3,552,275 (24.14 percent). For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in two of the past three years but anticipates incurring an operating deficit during the 2010-11 fiscal year. Total long-term obligations have increased by \$27,129,910 over the past two years, primarily due to the issuance of General Obligation Bonds.

Average daily attendance has decreased by 121 over the past two years. No change in ADA is anticipated during fiscal year 2010-11.

¹ Budget 2011 is included for analytical purposes only and has not been subjected to audit.

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

³ On behalf payments have been excluded from this schedule.

See accompanying note to supplementary information.

MERCED UNION HIGH SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS
 COMBINING BALANCE SHEET
 JUNE 30, 2010

	Adult Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
ASSETS				
Deposits and investments	\$ 40,673	\$ 125,394	\$ 247,817	\$ 972,579
Receivables	77,059	3,975	565,828	-
Due from other funds	399,706	363	7,386	-
Stores inventories	-	-	46,868	-
Total Assets	<u>\$ 517,438</u>	<u>\$ 129,732</u>	<u>\$ 867,899</u>	<u>\$ 972,579</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 20,297	\$ 2,383	\$ 61,364	\$ 168,605
Due to other funds	114,197	6,571	16,981	4,350
Deferred revenue	118	-	-	-
Total Liabilities	<u>134,612</u>	<u>8,954</u>	<u>78,345</u>	<u>172,955</u>
Fund Balances:				
Reserved for:				
Revolving cash	-	-	1,230	-
Stores inventories	-	-	46,868	-
Legally restricted balance	14,390	28,769	-	-
Unreserved:				
Designated	368,436	92,009	741,456	799,624
Undesignated, reported in:				
Debt service funds	-	-	-	-
Total Fund Balances	<u>382,826</u>	<u>120,778</u>	<u>789,554</u>	<u>799,624</u>
Total Liabilities and Fund Balances	<u>\$ 517,438</u>	<u>\$ 129,732</u>	<u>\$ 867,899</u>	<u>\$ 972,579</u>

See accompanying note to supplementary information.

Pupil Transportation Fund	Special Reserve Postemployment Benefits Fund	Capital Facilities Fund	County School Facilities Fund	Special Reserve Capital Outlay Fund	Bond Interest and Redemption Fund
\$ 147,420	\$ 408,696	\$ 3,185,406	\$ 1,117,610	\$ 893,826	\$ 2,191,717
-	-	257	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ 147,420</u>	<u>\$ 408,696</u>	<u>\$ 3,185,663</u>	<u>\$ 1,117,610</u>	<u>\$ 893,826</u>	<u>\$ 2,191,717</u>
\$ -	\$ -	\$ 4,716	\$ 653	\$ 96,801	\$ -
-	408,696	-	-	-	-
-	-	-	-	-	-
<u>-</u>	<u>408,696</u>	<u>4,716</u>	<u>653</u>	<u>96,801</u>	<u>-</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
147,420	-	3,180,947	1,116,957	797,025	-
-	-	-	-	-	2,191,717
<u>147,420</u>	<u>-</u>	<u>3,180,947</u>	<u>1,116,957</u>	<u>797,025</u>	<u>2,191,717</u>
<u>\$ 147,420</u>	<u>\$ 408,696</u>	<u>\$ 3,185,663</u>	<u>\$ 1,117,610</u>	<u>\$ 893,826</u>	<u>\$ 2,191,717</u>

This page left blank intentionally.

MERCED UNION HIGH SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS
 COMBINING BALANCE SHEET, Continued
 JUNE 30, 2010

	Tax Override Fund	Total Non-Major Governmental Funds
ASSETS		
Deposits and investments	\$ 70,211	\$ 9,401,349
Receivables	-	647,119
Due from other funds	-	407,455
Stores inventories	-	46,868
Total Assets	\$ 70,211	\$ 10,502,791
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	\$ -	\$ 354,819
Due to other funds	-	550,795
Deferred revenue	-	118
Total Liabilities	-	905,732
Fund Balances:		
Reserved for:		
Revolving cash	-	1,230
Stores inventories	-	46,868
Legally restricted balance	-	43,159
Unreserved:		
Designated	-	7,243,874
Undesignated, reported in:		
Debt service funds	70,211	2,261,928
Total Fund Balances	70,211	9,597,059
Total Liabilities and Fund Balances	\$ 70,211	\$ 10,502,791

See accompanying note to supplementary information.

MERCED UNION HIGH SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2010**

	Adult Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
REVENUES				
Federal sources	\$ 335,416	\$ 21,038	\$ 3,314,907	\$ -
Other state sources	1,218,538	-	308,939	380,773
Other local sources	390,833	10,655	716,606	9,240
Total Revenues	<u>1,944,787</u>	<u>31,693</u>	<u>4,340,452</u>	<u>390,013</u>
EXPENDITURES				
Current				
Instruction	1,420,213	443,770	-	-
Instruction-related activities:				
Supervision of instruction	71,566	-	-	-
School site administration	575,093	-	-	-
Pupil Services:				
Home-to school transportation	-	-	-	-
Food services	-	13,954	3,782,692	-
All other pupil services	12,173	55,756	-	-
General administration:				
All other general administration	76,053	24,616	160,287	-
Plant services	137,662	462	12,466	114,174
Facility acquisition and construction	71,934	-	-	331,810
Debt service				
Principal	-	-	-	-
Interest and other	-	-	-	-
Total Expenditures	<u>2,364,694</u>	<u>538,558</u>	<u>3,955,445</u>	<u>445,984</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(419,907)</u>	<u>(506,865)</u>	<u>385,007</u>	<u>(55,971)</u>
Other Financing Sources (Uses):				
Transfers in	-	-	300,000	-
Other sources	-	-	-	-
Transfers out	-	-	(303,000)	-
Net Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(3,000)</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>(419,907)</u>	<u>(506,865)</u>	<u>382,007</u>	<u>(55,971)</u>
Fund Balance - Beginning	802,733	627,643	407,547	855,595
Fund Balance - Ending	<u>\$ 382,826</u>	<u>\$ 120,778</u>	<u>\$ 789,554</u>	<u>\$ 799,624</u>

See accompanying note to supplementary information.

Pupil Transportation Fund	Special Reserve Postemployment Benefits Fund	Capital Facilities Fund	County School Facilities Fund	Special Reserve Capital Outlay Fund	Bond Interest and Redemption Fund
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	397,951	-	-
2,405	5,432	276,063	14,349	8,481	2,220,746
<u>2,405</u>	<u>5,432</u>	<u>276,063</u>	<u>412,300</u>	<u>8,481</u>	<u>2,220,746</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
37,062	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	5,351	-	-	-
-	-	274,202	-	-	-
-	-	546,009	629,871	595,930	-
-	-	27,226	-	-	1,500,000
-	-	2,984	-	-	1,084,908
<u>37,062</u>	<u>-</u>	<u>855,772</u>	<u>629,871</u>	<u>595,930</u>	<u>2,584,908</u>
<u>(34,657)</u>	<u>5,432</u>	<u>(579,709)</u>	<u>(217,571)</u>	<u>(587,449)</u>	<u>(364,162)</u>
-	-	-	-	-	-
-	-	-	-	-	257,003
-	(408,696)	-	-	-	-
-	(408,696)	-	-	-	257,003
<u>(34,657)</u>	<u>(403,264)</u>	<u>(579,709)</u>	<u>(217,571)</u>	<u>(587,449)</u>	<u>(107,159)</u>
182,077	403,264	3,760,656	1,334,528	1,384,474	2,298,876
<u>\$ 147,420</u>	<u>\$ -</u>	<u>\$ 3,180,947</u>	<u>\$ 1,116,957</u>	<u>\$ 797,025</u>	<u>\$ 2,191,717</u>

MERCED UNION HIGH SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE, Continued
FOR THE YEAR ENDED JUNE 30, 2010**

	Tax Override Fund	Total Non-Major Governmental Funds
REVENUES		
Federal sources	\$ -	\$ 3,671,361
Other state sources	-	2,306,201
Other local sources	936	3,655,746
Total Revenues	936	9,633,308
EXPENDITURES		
Current		
Instruction	-	1,863,983
Instruction-related activities:		
Supervision of instruction	-	71,566
School site administration	-	575,093
Pupil Services:		
Home-to school transportation	-	37,062
Food services	-	3,796,646
All other pupil services	-	67,929
General administration:		
All other general administration	-	266,307
Plant services	-	538,966
Facility acquisition and construction	-	2,175,554
Debt service		
Principal	-	1,527,226
Interest and other	-	1,087,892
Total Expenditures	-	12,008,224
Excess (Deficiency) of Revenues Over Expenditures	936	(2,374,916)
Other Financing Sources (Uses):		
Transfers in	-	300,000
Other sources	-	257,003
Transfers out	-	(711,696)
Net Financing Sources (Uses)	-	(154,693)
NET CHANGE IN FUND BALANCES	936	(2,529,609)
Fund Balance - Beginning	69,275	12,126,668
Fund Balance - Ending	\$ 70,211	\$ 9,597,059

See accompanying note to supplementary information.

MERCED UNION HIGH SCHOOL DISTRICT

PRIVATE-PURPOSE SCHOLARSHIP TRUST FUNDS
 COMBINING STATEMENT OF NET ASSETS
 JUNE 30, 2010

ASSETS	Scholarships
Deposits and investments	\$ 1,388,910
Total Cash and Assets	<u>\$ 1,388,910</u>
LIABILITIES	
NET ASSETS	
Reserved for scholarships	
Non-Expendable:	
Acker Scholarship	\$ 32,535
Alvernaz Scholarship	20,911
Beal Scholarship	11,158
Callister Scholarship	3,213
Cavaiani Scholarship	10,565
Chamberlain Scholarship	8,373
Landram Scholarship	27,143
Montano Scholarship	8,259
Mudd Scholarship	21,871
Okuda Scholarship	10,536
Roberts Scholarship	9,182
Roveto Scholarship	194,122
Weimer Scholarship	10,327
Expendable:	
AARP Scholarship	5,562
Barnes Scholarship	15,901
Bloss Scholarship	586,007
Brewer, James Memorial Scholarship	17,122
Brewer, Pamela Scholarship	16,873
Broussard Scholarship	2,897
Brown Scholarship	44,806
Church Scholarship	11,593
Crookham Scholarship	2,445
Dallas Scholarship	11,151
Dibblee, Al Scholarship	34,785
Elam Scholarship	-
Fancher Scholarship	75,142
Fite Scholarship	385
Gear Up Scholarship	1
Granado Scholarship	(133)
Jackson Scholarship	2,821
Joyner Scholarship	109

See accompanying note to supplementary information.

This page left blank intentionally.

MERCED UNION HIGH SCHOOL DISTRICT

PRIVATE-PURPOSE SCHOLARSHIP TRUST FUNDS
COMBINING STATEMENT OF NET ASSETS, Continued
JUNE 30, 2010

NET ASSETS, Continued

Reserved for scholarships

Scholarships

Expendable:

Kiwanis Scholarship	\$ 280
Lau Scholarship	6,118
Lockwood Scholarship	9,699
Martinelli Scholarship	283
McCollum Scholarship	3,377
McPherson-Hanson Scholarship	131
Mitchell Scholarship	145
Moberly Scholarship	5,710
Newhall Scholarship	29,793
Prince Scholarship	112,665
Purganan Scholarship	-
Rohm Scholarship	55
Sodexo Scholarship	139
Souza Scholarship	11,950
Thompson, Bob Scholarship	1,502
Yagi Scholarship	11,401
Total Net Assets Reserved for Scholarships	<u>\$ 1,388,910</u>

See accompanying note to supplementary information.

MERCED UNION HIGH SCHOOL DISTRICT

**PRIVATE-PURPOSE SCHOLARSHIP TRUST FUNDS
COMBINING STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Acker Scholarship</u>	<u>Alvernaz Scholarship</u>	<u>Beal Scholarship</u>	<u>Callister Scholarship</u>	<u>Cavaiani Scholarship</u>
ADDITIONS					
Trust income	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions	-	-	-	-	-
Interest income	315	225	109	31	222
Total Additions	<u>315</u>	<u>225</u>	<u>109</u>	<u>31</u>	<u>222</u>
DEDUCTIONS					
Scholarships awarded	1,000	600	250	-	300
Administrative	1	-	-	-	-
Total Deductions	<u>1,001</u>	<u>600</u>	<u>250</u>	<u>-</u>	<u>300</u>
Change in Net Assets	(686)	(375)	(141)	31	(78)
Net Assets - Beginning	<u>33,221</u>	<u>21,286</u>	<u>11,299</u>	<u>3,182</u>	<u>10,643</u>
Net Assets - Ending	<u>\$ 32,535</u>	<u>\$ 20,911</u>	<u>\$ 11,158</u>	<u>\$ 3,213</u>	<u>\$ 10,565</u>

See accompanying note to supplementary information.

<u>Chamberlain Scholarship</u>	<u>Landram Scholarship</u>	<u>Montano Scholarship</u>	<u>Mudd Scholarship</u>	<u>Okuda Scholarship</u>	<u>Roberts Scholarship</u>	<u>Roveto Scholarship</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 34,360
-	-	-	-	-	-	-
<u>3,775</u>	<u>293</u>	<u>80</u>	<u>240</u>	<u>113</u>	<u>88</u>	<u>3,741</u>
<u>3,775</u>	<u>293</u>	<u>80</u>	<u>240</u>	<u>113</u>	<u>88</u>	<u>38,101</u>
3,125	1,000	600	600	450	-	29,500
-	-	-	-	-	-	2
<u>3,125</u>	<u>1,000</u>	<u>600</u>	<u>600</u>	<u>450</u>	<u>-</u>	<u>29,502</u>
650	(707)	(520)	(360)	(337)	88	8,599
<u>7,723</u>	<u>27,850</u>	<u>8,779</u>	<u>22,231</u>	<u>10,873</u>	<u>9,094</u>	<u>185,523</u>
<u>\$ 8,373</u>	<u>\$ 27,143</u>	<u>\$ 8,259</u>	<u>\$ 21,871</u>	<u>\$ 10,536</u>	<u>\$ 9,182</u>	<u>\$ 194,122</u>

This page left blank intentionally.

MERCED UNION HIGH SCHOOL DISTRICT

PRIVATE-PURPOSE SCHOLARSHIP TRUST FUNDS
 COMBINING STATEMENT OF CHANGES IN NET ASSETS, Continued
 FOR THE YEAR ENDED JUNE 30, 2010

	Weimer Scholarship	Total Non-Expendable Scholarships
ADDITIONS		
Trust income	\$ 500	\$ 34,860
Contributions	-	-
Interest income	182	9,414
Total Additions	<u>682</u>	<u>44,274</u>
DEDUCTIONS		
Scholarships awarded	500	37,925
Administrative	-	\$ 3
Total Deductions	<u>500</u>	<u>37,928</u>
Change in Net Assets	182	6,346
Net Assets - Beginning	<u>10,145</u>	<u>361,849</u>
Net Assets - Ending	<u>\$ 10,327</u>	<u>\$ 368,195</u>

See accompanying note to supplementary information.

MERCED UNION HIGH SCHOOL DISTRICT

**PRIVATE-PURPOSE SCHOLARSHIP TRUST FUNDS
COMBINING STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010**

	AARP Scholarship	Barnes Scholarship	Bloss Scholarship	Brewer, James Scholarship	Brewer, Pamela Scholarship
ADDITIONS					
Trust income	\$ -	\$ 2,000	\$ 220,318	\$ 500	\$ 500
Contributions	-	-	-	-	-
Interest income	62	138	107,189	201	201
Total Additions	<u>62</u>	<u>2,138</u>	<u>327,507</u>	<u>701</u>	<u>701</u>
DEDUCTIONS					
Scholarships awarded	1,000	1,000	395,700	250	500
Administrative	-	-	558	-	-
Total Deductions	<u>1,000</u>	<u>1,000</u>	<u>396,258</u>	<u>250</u>	<u>500</u>
Change in Net Assets	(938)	1,138	(68,751)	451	201
Net Assets - Beginning	<u>6,500</u>	<u>14,763</u>	<u>654,758</u>	<u>16,671</u>	<u>16,672</u>
Net Assets - Ending	<u>\$ 5,562</u>	<u>\$ 15,901</u>	<u>\$ 586,007</u>	<u>\$ 17,122</u>	<u>\$ 16,873</u>

See accompanying note to supplementary information.

<u>Broussard Scholarship</u>	<u>Brown Scholarship</u>	<u>Church Scholarship</u>	<u>Crookham Scholarship</u>	<u>Dallas Scholarship</u>	<u>Dibblee, Al & IIABMMC Scholarship</u>	<u>Elam Scholarship</u>
\$ 50	\$ 29,350	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	34,667	-
21	118	124	26	174	121	-
<u>71</u>	<u>29,468</u>	<u>124</u>	<u>26</u>	<u>174</u>	<u>34,788</u>	<u>-</u>
500	9,500	600	500	3,000	-	-
-	2	-	-	-	3	-
<u>500</u>	<u>9,502</u>	<u>600</u>	<u>500</u>	<u>3,000</u>	<u>3</u>	<u>-</u>
(429)	19,966	(476)	(474)	(2,826)	34,785	-
<u>3,326</u>	<u>24,840</u>	<u>12,069</u>	<u>2,919</u>	<u>13,977</u>	<u>-</u>	<u>-</u>
<u>\$ 2,897</u>	<u>\$ 44,806</u>	<u>\$ 11,593</u>	<u>\$ 2,445</u>	<u>\$ 11,151</u>	<u>\$ 34,785</u>	<u>\$ -</u>

MERCED UNION HIGH SCHOOL DISTRICT

**PRIVATE-PURPOSE SCHOLARSHIP TRUST FUNDS
COMBINING STATEMENT OF CHANGES IN NET ASSETS, Continued
FOR THE YEAR ENDED JUNE 30, 2010**

	Fancher Scholarship	Fite Scholarship	Gear Up Scholarship	Granado Scholarship	Jackson Scholarship
ADDITIONS					
Trust income	\$ 26,000	\$ -	\$ 800	\$ -	\$ -
Contributions	-	-	-	-	-
Interest income	26,405	2	1	14	29
Total Additions	<u>52,405</u>	<u>2</u>	<u>801</u>	<u>14</u>	<u>29</u>
DEDUCTIONS					
Scholarships awarded	52,000	250	150	-	100
Administrative	6	-	-	-	-
Total Deductions	<u>52,006</u>	<u>250</u>	<u>150</u>	<u>-</u>	<u>100</u>
Change in Net Assets	399	(248)	651	14	(71)
Net Assets - Beginning	<u>74,743</u>	<u>633</u>	<u>(650)</u>	<u>(147)</u>	<u>2,892</u>
Net Assets - Ending	<u>\$ 75,142</u>	<u>\$ 385</u>	<u>\$ 1</u>	<u>\$ (133)</u>	<u>\$ 2,821</u>

See accompanying note to supplementary information.

<u>Joyner Scholarship</u>	<u>Kiwanis Scholarship</u>	<u>Lau Scholarship</u>	<u>Lockwood Scholarship</u>	<u>Martinelli Scholarship</u>	<u>McCollum Scholarship</u>	<u>McPherson- Hanson Scholarship</u>
\$ -	\$ -	\$ -	\$ -	\$ 250	\$ -	\$ -
-	-	-	-	-	-	-
-	2	37	96	1	27	1
-	2	37	96	251	27	1
-	-	1,000	-	250	-	-
-	-	-	-	-	-	-
-	-	1,000	-	250	-	-
-	2	(963)	96	1	27	1
109	278	7,081	9,603	282	3,350	130
<u>\$ 109</u>	<u>\$ 280</u>	<u>\$ 6,118</u>	<u>\$ 9,699</u>	<u>\$ 283</u>	<u>\$ 3,377</u>	<u>\$ 131</u>

MERCED UNION HIGH SCHOOL DISTRICT

**PRIVATE-PURPOSE SCHOLARSHIP TRUST FUNDS
COMBINING STATEMENT OF CHANGES IN NET ASSETS, Continued
FOR THE YEAR ENDED JUNE 30, 2010**

	Mitchell Scholarship	Moberly Scholarship	Newhall Scholarship	Prince Scholarship	Purganan Scholarship
ADDITIONS					
Trust income	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions	-	-	-	-	-
Interest income	-	60	295	2,467	2
Total Additions	<u>-</u>	<u>60</u>	<u>295</u>	<u>2,467</u>	<u>2</u>
DEDUCTIONS					
Scholarships awarded	-	200	1,750	14,950	1,966
Administrative	-	-	-	3	-
Total Deductions	<u>-</u>	<u>200</u>	<u>1,750</u>	<u>14,953</u>	<u>1,966</u>
Change in Net Assets	-	(140)	(1,455)	(12,486)	(1,964)
Net Assets - Beginning	<u>145</u>	<u>5,850</u>	<u>31,248</u>	<u>125,151</u>	<u>1,964</u>
Net Assets - Ending	<u>\$ 145</u>	<u>\$ 5,710</u>	<u>\$ 29,793</u>	<u>\$ 112,665</u>	<u>\$ -</u>

See accompanying note to supplementary information.

<u>Rohm Scholarship</u>	<u>Sodexo Scholarship</u>	<u>Souza Scholarship</u>	<u>Thompson, Bob Scholarship</u>	<u>Yagi Scholarship</u>	<u>Total Expendable Scholarships</u>	<u>Total (Memorandum Only)</u>
\$ -	\$ -	\$ -	\$ -	\$ 7,000	\$ 286,768	\$ 321,628
-	-	-	1,500	-	36,167	36,167
-	-	121	2	57	137,994	147,408
-	-	121	1,502	7,057	460,929	505,203
-	-	375	-	500	486,041	523,966
-	-	-	-	-	572	575
-	-	375	-	500	486,613	524,541
-	-	(254)	1,502	6,557	(25,684)	(19,338)
55	139	12,204	-	4,844	1,046,399	1,408,248
<u>\$ 55</u>	<u>\$ 139</u>	<u>\$ 11,950</u>	<u>\$ 1,502</u>	<u>\$ 11,401</u>	<u>\$ 1,020,715</u>	<u>\$ 1,388,910</u>

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2010

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

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

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures and Changes in Fund Balance and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts represent Federal funds that have been recorded as revenues that have not been expended by June 30, 2010. The unspent balances are reported as legally restricted ending balances within the General Fund.

	<u>CFDA Number</u>	<u>Amount</u>
Total Federal Revenues From the Statement of Revenues, Expenditures and Changes in Fund Balance:		\$ 11,076,080
Reconciling item:		
Food Distribution	10.555	240,285
ARRA: State Fiscal Stabilization	84.394	<u>3,200,171</u>
Total Schedule of Expenditures of Federal Awards		<u>\$ 14,516,536</u>

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

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

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION

JUNE 30, 2010

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. Senate Bill 2 of the 2009-10 Fourth Extraordinary Session (SBX4 2) allows for an equivalent five-day reduction to the required number of instruction minutes for the fiscal years 2009-10 thru 2012-13.

Reconciliation of Annual Financial and Budget Report With Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

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

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

Private Purpose Scholarship Trust Funds – Combining Statement of Net Assets and Combining Statement of Changes in Net Assets

These statements are included to provide additional information regarding the individual scholarship trust funds. Following is a description of the purpose and requirements for each of the scholarships.

Jim Acker Memorial Scholarship

This scholarship has been established in honor of Jim Acker who graduated from Merced High School in 1971, by the Jim Acker Memorial Scholarship Committee, to provide a scholarship for graduating seniors from Merced High School attending a two or four year college. Recipient of this scholarship will be selected by the Jim Acker Memorial Scholarship Committee based on citizenship, GPA of 3.0 or higher and participating in athletics.

John L. Alvernaz, Jr. Scholarship

The scholarship is established from the Estate of John L. Alvernaz, Jr. to be awarded to students from Merced Union High School District. No other criteria has been specified for determining eligibility for this scholarship.

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2010

Steven O. Beal Memorial Scholarship

This scholarship is established in the memory of Steven O. Beal, a former teacher of Industrial Arts in the Merced Union High School District, for eligible Industrial Arts Drafting students planning to attend a two or four-year accredited college or university. If no Industrial Arts Drafting students apply, the scholarship may be granted to any other deserving Industrial Arts student. The student must have a cumulative GPA of no less than 2.75 for the first seven semesters of high school. The awards are to be in increments of \$500 from any amount over the \$10,000 principle. This scholarship is non-renewable.

Eldon J. Callister Memorial Scholarship

This scholarship is established in honor of Eldon J. Callister to provide a scholarship each year to a student of Merced Union High School District who enrolls as a full time student at either Brigham Young University or Utah State University. An award is given annually if a graduating senior qualifies.

Ugo Cavaiani Scholarship

This scholarship has been set up per the request of Ugo Cavaiani to award scholarships to Livingston High School graduates aspiring to be nurses.

Chamberlain Scholarship

This scholarship was established by Naomi R. Chamberlain to provide annual scholarships to worthy graduates of Merced High School District. The following requirements are to be met by the District in managing the Chamberlain Scholarship:

- The principal shall remain intact in the Trust and the income only would be distributed to worthy students.
- Scholarships are to be awarded once per year in early May or in the spring semester.
- The number of scholarships is dependent upon the amount of interest or income generated from the fund.
- Approximately one-half of the scholarships are to be awarded to students whose goal is to attend a two-year junior or community college and the remaining awarded to students whose goal is to attend a four-year college.
- Scholarships are to be awarded to students with a 3.0 GPA or better during their attendance at Merced High School.
- Consideration should be given to provide for automatic renewal for any student in continuous enrollment, up to four years at any college or university of his or her choice, as long as the student maintains a 3.0 or higher GPA.

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION

JUNE 30, 2010

Hugh K. Landram Memorial Scholarship

This scholarship fund is established in honor of Hugh K. Landram to provide for scholarships to be awarded to deserving students for their future education in an accredited college or university in the State of California.

John P. Montano Memorial Scholarship

This Scholarship is established in honor of John P. Montano, a former Physical Education teacher and coach in the Merced Union High School District. It provides scholarships to eligible students who competed in a varsity sport for a minimum of one season and are planning to attend a two- or four-year college or an accredited vocational school. The student must have a cumulative GPA of no less than 2.5 for the first seven semesters of high school. The awards are to be in increments of \$600 from any amount over the \$3,255 principal. This scholarship is non-renewable.

Jay Leroy Mudd Scholarship

This scholarship is established from the Estate of Jay Leroy Mudd. The corpus shall not be impaired, but the interest shall be paid, by way of scholarships, to students from Merced Union High School for the purpose of obtaining a college education. A board consisting of the President of Merced City Chamber of Commerce, the President of Merced Rotary club, the Senior Warden of F. & A.M. Lodge #99 of Merced, and the Master of F. & A.M. Lodge #749 of Merced shall have the exclusive right to select the recipients.

Okuda Memorial Scholarship

This scholarship has been established by Franklin Okuda in memory of his son Calvin Okuda. The scholarship has a balance of over \$10,000. This is a perpetual scholarship with only the interest being awarded in the form of scholarships. The interest earned shall be split equally for two scholarships, to one male and one female graduate from Livingston High School that meet the following criteria.

- Scholarships are to be awarded to students with a 2.0 GPA or higher.
- Scholarships are to be awarded to students who are enrolled at a vocational school, community college, state college, or university.
- Scholarships are to be awarded to students who otherwise would not receive an award.

Donna Roberts Scholarship

This scholarship has been set up per the request of Eugene E. Roberts to provide a scholarship each year for a graduating senior of Yosemite High School intending to enroll in a community college the subsequent fall semester. Recipient of this scholarship shall be selected by Mr. Ron DeWong or his successor under criteria established by Mr. Eugene E. Roberts.

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2010

Rebecca Starr Roveto Scholarship

This scholarship is established to provide scholarships for graduating seniors from Atwater High School or any new high school serving Atwater students who plan to attend an accredited four year college or university in increments of \$1,000 beginning in 1998. The awards to be given will be selected by the scholarship committee designated by the Merced Union High School District to applicants who have a minimum of 3.3 GPA (4.0 scale).

Walter Weimer Family/Livingston Rotary International Scholarship

This scholarship has been established in honor of Walter Weimer, per the request of the Weimer Family, to provide a scholarship to a Livingston High School senior. Applicant to meet the following criteria: strong math and science or agricultural science, two or four year college (UC Merced preferred but no required), well-rounded student who participated in activities. Livingston High School site committee selects recipient. Award to be \$500 (non-renewable).

AARP Scholarship

This scholarship was established by the Atwater AARP Chapter #2194 in the amount of \$9,000 to be distributed at the rate of \$1,000 per year for four scholarships, \$250 each, until the \$9,000 with its earnings has been depleted. The scholarships are to be awarded to two academic majors and two vocational majors for studies accordingly in college. The Atwater High School Scholarship Committee selects several possible academic and vocational recipients from the pool of Atwater High School Scholarship applicants and refers the names to AARP Chapter #2194 for screening and selection.

Richard Barnes Memorial Scholarship

This scholarship was established by JoAnna Browning in the memory of Richard Barnes to provide scholarships for eligible student athletes of Atwater High School who graduate with a minimum 3.0 GPA. There will be one award recipient each year receiving \$500 if attending a two year college or \$1,000 if attending a four year college.

Christine Bloss Memorial Scholarship

This scholarship is established in honor of Christine Bloss to provide scholarships for graduating seniors. It is awarded annually to students who attend a two-year or four-year college and are graduates of Merced High School, Atwater, Livingston, Yosemite, or the Adult School. The total amount awarded annually is determined by the Board of Trustees based on earnings from trust account and time certificates. Each campus receives a stipulated amount based on the number of graduates on a percentage basis. Each school determines the number of recipients and the amount of each award. Students must attend an accredited California college or university.

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION

JUNE 30, 2010

James Brewer Memorial Scholarship

This scholarship has been established in honor of James W. Brewer. A \$500 non-renewable scholarship will be awarded to an Atwater High School senior pursuing a career as a high school Science teacher. However, if no applicants meet the criteria, an applicant becoming a high school teacher will be considered. A minimum 3.5 GPA is preferred. The Brewer Family will select the recipient of the scholarship or designate the Atwater High School Committee to make the selection.

Pamela Brewer Scholarship

This scholarship has been established in honor of Pamela K. Brewer. A \$500 non-renewable scholarship will be awarded to an Atwater High School senior pursuing a career as a high school Social Studies or English teacher. However, if no applicants meet the criteria, an applicant becoming a high school teacher will be considered. A minimum 3.5 GPA is preferred. The Brewer Family will select the recipient of the scholarship or designate the Atwater High School Committee to make the selection.

Kiara Broussard Culinary Arts Scholarship

This scholarship has been established in honor of Kiara Broussard, per the request of Jennifer Broussard, to provide a scholarship for a graduating senior of Golden Valley High School or Buhach Colony/Merced High School if Golden Valley has no candidates. Applicant majoring in Culinary Arts (San Francisco Culinary Academy preferred). Recipient will be selected by family of Kiara Broussard. No required activities, minimum GPA 3.0, \$500 award (amount may change).

Brown Memorial Scholarship

This scholarship was established to provide scholarships to Merced and Golden Valley High School graduating seniors planning to attend a two or four-year accredited college or university in increments of \$1,000 per year for four years or completion of undergraduate degree. Scholarships will be awarded to students with a 3.3 cumulative GPA. College students must have a cumulative 2.5 GPA to remain eligible.

Church Scholarship

This scholarship has been established by Mr. and Mrs. Dan Church. The Scholarship Fund has accumulated approximately \$10,000. The interest accrued each year will be awarded to a graduating Golden Valley High School male or female student athlete who has participated in at least one varsity sport and plans to attend Merced College.

Sybil Nye Crookham Memorial Scholarship

This scholarship is established in honor of Sybil Nye Crookham. The scholarship will be awarded to seniors at either Atwater or Buhach Colony High Schools with a GPA of at least 3.0. The \$250 scholarship will be awarded to one senior at each high school.

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2010

Dallas Athletic Scholarship (Heart Award)

This scholarship has been established at Atwater and Buhach Colony High Schools in the amounts of \$12,500 each. The \$1,000 scholarship will be awarded to a female athlete at each high school with a minimum GPA of 2.5 who has participated in athletics for a minimum of two years who will be enrolled in a two or four year college or vocational school.

Al Dibblee & Independent Insurance Agents and Brokers of Merced and Mariposa Counties Scholarship

This scholarship has been established by Al Dibblee & Independent Insurance Agents and Brokers of Merced and Mariposa Counties. The \$500 scholarship will be awarded to two seniors on a rotating basis at Livingston and Buhach Colony High Schools in 2010, Atwater and Golden Valley High Schools in 2011, and Merced and Livingston High Schools in 2012. The two scholarships of \$500 will be awarded each year until the funds are depleted. When funds are reduced to less than \$500, the remaining balance will be the award. The applicants will need to meet the following criteria: Senior, Minimum GPA of 3.0, attend Merced College, business related major, and have a financial need. The Campus Site Scholarship Committees will select the recipient using the MUHSD Generic Scholarship application.

Bill Elam Memorial Scholarship

This scholarship has been established in honor of Bill Elam by the Livingston Rotary Club and friends of Bill Elam for the purpose of awarding an annual scholarship to a graduating senior from Livingston High School. No other criteria has been specified for the eligibility requirements. The recipient of this scholarship will be selected by Earlane Elam and the Livingston High School Scholarship Committee.

Fred B. Fancher Scholarship

This scholarship is established in honor of Fred B. Fancher. Scholarships are granted annually to qualified graduates of the Merced Union High School District who have demonstrated an interest in the broad field of agriculture and who wish to pursue a course of study, directly or indirectly, related to the field of agriculture. Students must attend either a two-year or a four-year accredited California university or college. The amount awarded each year depends upon the availability of funds. Applicants may reapply each year and receive a scholarship for up to a maximum of four years.

Carter Fite Memorial Scholarship

This scholarship has been established in honor of Carter Fite. The scholarship awards began in the spring of 2002 and will be awarded until the funds are depleted. Scholarships in the amount of \$500 each will be awarded to two Atwater High School seniors pursuing a two or four year college degree and majoring in math or teaching (elementary or high school), preferably math teacher. A GPA of 3.0 or higher is required. Students may use the generic Merced Union High School District scholarship application. There are no financial need requirements. Atwater High School Scholarship Committee selects the recipients and the funds are distributed using the Bloss Scholarship guidelines. Staff will present the awards at the awards ceremony.

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION

JUNE 30, 2010

Gear Up Scholarship

This scholarship has been established by the Gear Up Program. Awards of \$150, \$300, or \$500 will be given to students enrolled in the Gear Up Program at Atwater and Buhach High Schools. The awards will be based on how well the students did in the program.

Mario Granado Memorial Scholarship

This scholarship has been established in honor of Mario Granado, a former employee of Merced Union High School District, per the request of Cynthia Granado, to provide non-renewable scholarships to Livingston High School, Atwater High School, Buhach Colony High School, Merced High School and Golden Valley High School seniors with 2.0+ GPA. Applicants to meet any of the following criteria: pursuing a vocational program (priority), overcome obstacles or shown improvement, come from large family, participate in baseball or softball, complete 200+ hours of community service or plays a musical instrument. Awards to be \$1,000 at each campus.

Betty B. Jackson Scholarship

This scholarship has been established in honor of Betty B. Jackson, per the request of Lloyd Jackson, to provide a scholarship for the first year of college for a graduating senior of Merced High School enrolling in a junior college. Recipient of this scholarship shall be selected by the Merced High School Scholarship Committee under the criteria established by Mr. Lloyd Jackson as follows:

- Financial need as determined by the Scholarship Committee.
- Minimum GPA of 2.0 based on last 5 semesters of high school grades.
- Selection cannot be made until after the Bloss and Smith Scholarships are selected.

Joyner Scholarship

This scholarship was established by the California Association of School Business Officials to be given in the name of Lydia L. Lobdell, in the amount of \$500 each year for ten years. The recipient will be selected from one high school in the District on a rotating basis. The selection will be made by a committee of business teachers at the site. The scholarship may be awarded without qualification to any graduate in need of assistance to continue their education.

Livingston Kiwanis Club Scholarship

This scholarship has been established by the Kiwanis Club of Livingston-Delhi for the purposes of awarding a yearly academic scholarship to a Livingston High School Student, beginning in 1993. The criteria is to be established by the Livingston High School Scholarship Committee.

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION

JUNE 30, 2010

Karina Lau Memorial Scholarship

This scholarship is established in honor of Karina Lau. The scholarship is to be awarded to a senior at Livingston High School who was involved in the music or theater program and will enroll in a two or four year college with a music or theater related degree. The scholarship will be \$1,000 a year for up to four years as long as the student continues with a music or theater major.

Lester L. Lockwood Memorial Scholarship

This scholarship has been established in honor of Lester L. Lockwood with the approval of Janelle Lockwood. The Lester Lockwood Memorial Scholarship will be awarded each year to a graduating senior from Yosemite High School who plans to continue his/her education at Merced College, or the previous year's recipient who is currently enrolled at Merced College and has reapplied for the scholarship. The scholarship may be renewed one time only in the manner described above. A current college student who is reapplying will be given precedence. In the event there is no reapplication, a graduating senior from Yosemite High School will be chosen by the administration and staff at Yosemite High School.

Angelo Martinelli Memorial Scholarship

This scholarship is established in honor of Angelo Martinelli to provide scholarships to eligible Merced High School graduates. Scholarships in the amount of \$250 will be awarded to students who have received a cumulative GPA of at least 2.75 in high school, the student may attend an accredited two-year, four-year, or a vocational school, and the student will be approved by the Martinelli family. This scholarship is non-renewable.

Karen McCollum Memorial Scholarship

This scholarship was established in honor of Karen McCollum to provide a scholarship to an eligible student who attended the GED program at the Merced Adult School and is enrolling with a GPA of 2.0 or higher and at least six or more units of work at Merced Community College. The \$500 scholarship will be disbursed in two separate payments annually (August and December).

Lucy McPherson-Hanson Memorial Scholarship

This scholarship was established to provide annual scholarships preferably to an African American student, or other minority student, graduating from Merced High School with a minimum grade point average of 2.5. This scholarship is non-renewable.

Herbert Mitchell Memorial Scholarship

This scholarship has been established in honor of Herbert Mitchell by his widow, Mrs. Winnie Mitchell, to provide a \$200 scholarship to a deserving graduate of Merced High School. The recipient of this scholarship shall be selected by the Merced High School Scholarship Committee under the criteria established by Mrs. Winnie Mitchell as follows:

- Financial need as determined by the Scholarship Committee.

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION

JUNE 30, 2010

- Must be a business student.
- Must be enrolling in a local community college.
- No minimum GPA requirements.

Sanford Moberly Memorial Scholarship

This scholarship is established in memory of Sanford Moberly, an art teacher at Livingston High School. Each year an art student, selected by the Livingston High School Art Department, receives a \$200 award from this scholarship.

Henry Mayo Newhall Scholarship

This scholarship was established by a gift from the Henry Mayo Foundation. A scholarship in the amount of \$8,000 is awarded to the outstanding graduate of Merced High School who will attend a four-year college. Applicant selection criteria is the same as for the Bloss Scholarship.
Clarence Earl Prince Scholarship

This scholarship is established from the Estate of Clarence Earl Prince to provide for scholarships to be awarded to deserving students of Merced Union High School who intend to attend college during the next academic year immediately following high school graduation. The Superintendent of the Merced Union High School District, together with the Board of Directors of Merced Rotary Club shall choose applicants and set the standards by which the applicants will be chosen. The criteria can be changed form one year to the next.

Clarence Earl Prince Scholarship

This scholarship is established from the Estate of Clarence Earl Prince to provide for scholarships to be awarded to deserving students of Merced Union High School who intend to attend college during the next academic year immediately following high school graduation. The Superintendent of the Merced Union High School District, together with the Board of Directors of Merced Rotary Club shall choose applicants and set the standards by which the applicants will be chosen. The criteria can be changed form one year to the next.

Anastacia Purganan Memorial Scholarship

This scholarship has been established in honor of Anastacia Purganan to provide scholarships to eligible Livingston High School graduates, who intend to attend Merced College for two years on a full time basis in pursuing a career as a teacher or vocational program. Two scholarships, in the amount of \$1,000 each, will be awarded to approved students with a cumulative GPA between 2.0 to 3.0 in high school.

Ryan M. Rohm Memorial Scholarship

This scholarship is established in honor of Ryan Rohm to provide scholarships to eligible Golden Valley High School graduates. Three scholarships, in the amount of \$1,000 (\$500 per year for two years), will be awarded to approved students, to be eligible a student must have received a cumulative GPA of at least 3.0 in high school. This scholarship is non-renewable.

MERCED UNION HIGH SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION

JUNE 30, 2010

Sodexo Scholarship

Sodexo School Services has established this scholarship which will total two \$500 scholarships a year for students wishing to continue their education beyond high school in a vocational area. The scholarship will be rotated between all District high schools beginning with Buhach Colony and Golden Valley. The scholarship will be awarded to one student at each of the two high schools with at least a 2.5 GPA.

Crystal Souza Memorial Scholarship

This scholarship is established in honor of Crystal Souza. The scholarship is to be awarded to seniors at Livingston High School and will total \$250 a year for two students. Each \$250 scholarship will be awarded to one agriculture major and one nursing major. The students must be attending Merced College.

Bob Thompson Rotary Scholarship

This scholarship has been established by Bob Thompson. The scholarship will be awarded to a Livingston High School Senior who is pursuing a vocational degree or certificate. The award amount will be \$500 per year and the recipient will be selected by the Livingston High School Site Committee.

George Yagi Memorial Scholarship

This scholarship has been established in honor of George Yagi, per the request of Floy Yagi, to provide a scholarship to a Livingston High School senior who intends to attend a two or four year college. Applicant to meet the following criteria: major in agriculture or related field, participation in FFA, minimum GPA of 3.0. Livingston High School site committee selects recipient. Award to be \$1000 for a four year college or \$500 for a two year college.

INDEPENDENT AUDITORS' REPORTS

This page left blank intentionally.



**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
Merced Union High School District
Merced, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Merced Union High School District as of and for the year ended June 30, 2010, which collectively comprise Merced Union High School District's basic financial statements and have issued our report thereon dated November 24, 2010. 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 Merced Union High School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Merced Union High School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Merced Union High School District's internal control over financial reporting.

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of Merced Union High School District in a separate letter dated November 24, 2010.

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, and Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Vannoy, Eric, Day & Co., LLP

Fresno, California
November 24, 2010



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

Governing Board
Merced Union High School District
Merced, California

Compliance

We have audited the compliance of Merced Union High 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 could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2010. Merced Union High 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 Merced Union High School District's management. Our responsibility is to express an opinion on Merced Union High 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 Merced Union High 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 Merced Union High School District's compliance with those requirements.

In our opinion, Merced Union High School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The management of Merced Union High 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 Merced Union High School District's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program to determine 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Merced Union High School District's internal control over compliance.

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

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

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

Vannoy, Eric, Day & Co., LLP

Fresno, California
November 24, 2010



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Governing Board
 Merced Union High School District
 Merced, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Merced Union High School District as of and for the year ended June 30, 2010, and have issued our report thereon dated November 24, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2009-10*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Attendance Accounting:		
Attendance reporting	8	Yes
Kindergarten continuance	3	Yes
Independent study	23	Yes
Continuation education	10	Yes
Instructional Time:		
School districts	6	Yes
County offices of education	3	Not Applicable
Instructional Materials:		
General requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early retirement incentive	4	Not Applicable
Gann limit calculation	1	Yes
School Accountability Report Card	3	Yes
Public hearing requirement - receipt of funds	1	Yes

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Class Size Reduction Program (including in Charter Schools):		
General requirements	7	Not Applicable
Option one classes	3	Not Applicable
Option two classes	4	Not Applicable
District or charter schools with only one school serving K-3	4	Not Applicable
After School Education and Safety Program		
General requirements	4	Not Applicable
After school	4	Not Applicable
Before school	5	Not Applicable
Charter Schools:		
Contemporaneous records of attendance	1	Not Applicable
Mode of instruction	1	Not Applicable
Non classroom-based instruction/independent study	15	Not Applicable
Determination of funding for non classroom-based instruction	3	Not Applicable
Annual instruction minutes classroom based	3	Not Applicable

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

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

Vannoy, Eric, Day & Co., LLP

Fresno, California
November 24, 2010

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

This page left blank intentionally.

MERCED UNION HIGH SCHOOL DISTRICT

SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2010

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>84.394 (ARRA)</u>	<u>ARRA State Fiscal Stabilization Fund</u>
<u>84.010, 84.389 (ARRA)</u>	<u>Title I Grants to Local Educational Agencies Cluster (includes ARRA)</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 435,496</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

Internal control over State programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None reported</u>
Type of auditors' report issued on compliance for State programs:	<u>Unqualified</u>

MERCED UNION HIGH SCHOOL DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2010**

None reported.

MERCED UNION HIGH SCHOOL DISTRICT

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

None reported.

MERCED UNION HIGH SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

None reported.

MERCED UNION HIGH SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2010

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

