



Annual Financial Report  
June 30, 2019

**Morgan Hill Unified School District**

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# MORGAN HILL UNIFIED SCHOOL DISTRICT

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***FINANCIAL SECTION***

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## INDEPENDENT AUDITOR'S REPORT

Governing Board  
Morgan Hill Unified School District  
Morgan Hill, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Morgan Hill Unified School District (the District) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Morgan Hill Unified School District, as of June 30, 2019, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

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

### ***Other Information***

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

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



**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2019, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Palo Alto, California  
December 12, 2019



**Morgan Hill Unified School District**  
15600 Concord Circle  
Morgan Hill, CA 95037

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of Morgan Hill Unified School District's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2019, with comparative information for the year ended June 30, 2018. Please read it in conjunction with the District's financial statements, which immediately follow this section.

The discussion and analysis of Morgan Hill Unified School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2019. The intent of this discussion and analysis is to look at the District's financial performance as a whole. To provide a complete understanding of the District's financial performance, please read it in conjunction with the Independent Auditor's Report, Notes to the Basic Financial Statements, and the District's Financial Statements.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments issued June 1999. Certain comparative information is required to be presented in the MD&A.

### **FINANCIAL HIGHLIGHTS**

- The Governing Board continues to recognize their fiduciary responsibility to maintain the District's fiscal solvency, continuing the Board's commitment to ensure the District maintains sufficient reserves well above those required by the State.
- With the implementation of the Local Control Funding Formula, the District continues to receive increases in State funding. The new resources were directed to support school site programs and to partially reinstate some of the budget reductions made during the prior years.
- The District continued to have positive, collaborative relationships with all bargaining units.
- The District's Local Control Accountability Plan (LCAP) highlights the use of LCFF funds for programs and initiatives that the District implemented in the past year. All school sites are now offering a robust after school program with LCFF Supplemental funding. The District is also continuing to expand programs at elementary schools.
- A one-time transfer from the Governor's One Time Discretionary Funding was used towards paying down the debt from our Certificates of Participation program, in the amount of \$1.4 million.

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

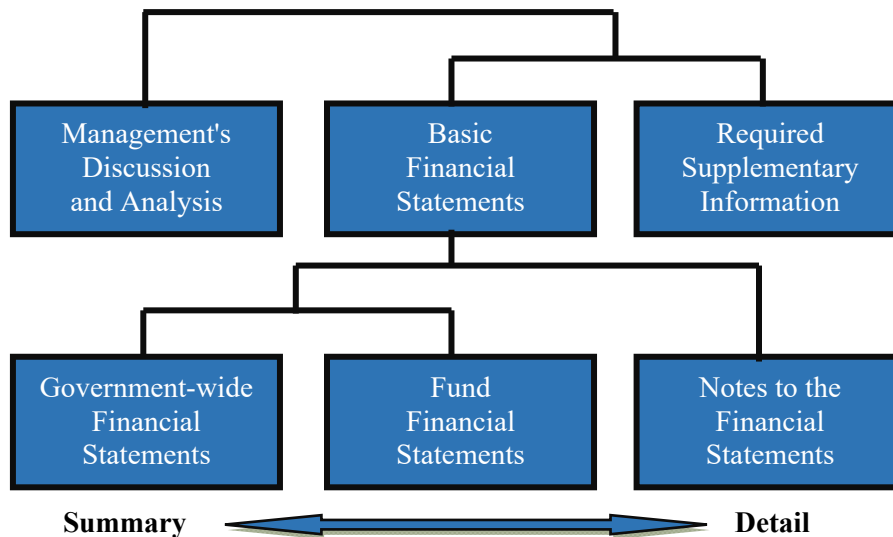
JUNE 30, 2019

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### OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – Management's Discussion and Analysis (this section), the Basic Financial Statements, and Required Supplementary Information. These statements are organized so the reader can understand the Morgan Hill Unified School District (the District) as a financial whole, an entire operating entity. These statements then proceed to provide an increasingly detailed look at specific financial activities.

#### Components of the Financial Section



The first two statements are Government-wide Financial Statements, the Statement of Net Position, and Statement of Activities. These statements provide information about the activities of the whole School District, presenting both an aggregate view of the District's finances and a longer-term view of these finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's more significant funds with all other non-major funds presented in total in one column.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements.

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019

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### REPORTING THE DISTRICT AS A WHOLE

#### The Statement of Net Position and the Statement of Activities

These two statements provide information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all the District's assets and liabilities using the accrual basis of accounting. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid. These statements report information on the District as a whole and its activities in a way that helps answer the question, "How did we do financially during 2018-2019?"

These two statements report the School District's net position and changes in it. This change in net position is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Over time, the increases or decreases in the District's net position, as reported in the Statement of Activities, are one indicator of whether its financial health is improving or deteriorating. The relationship between revenues and expenses indicates the District's operating results. However, the District's goal is to provide services to our students, not to generate profits as commercial entities. One must consider many other non-financial factors, such as the quality of education provided and the safety of the schools, the condition of school buildings and other facilities, and changes to the property tax base of the District need to assess the overall health of the District.

#### Reporting the School District's Most Significant Funds

##### *Fund Financial Statements*

The fund financial statements provide more detailed information about the District's most significant funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. Some funds are required to be established by state law. However, the District establishes other funds to control and manage money for specific purposes.

- **Governmental Funds**  
Most of the School District's activities are reported in governmental funds. The major governmental funds of the District are the General Fund, Building Fund, Capital Facilities Fund, and Bond Interest and Redemption Fund. Governmental funds focus on how money flows into and out of the funds and the balances that remain at the end of the year. They 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 operations and services that help determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.
- **Fiduciary Funds**  
The District is the trustee, or fiduciary, for student activity funds and scholarship funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Position. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019

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### FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

#### The School District as a Whole

For the period ending June 30, 2019, the District's net position increased \$9.3 million to \$121.21 million, or a 8.28% increase. The District participates in both CalPERS and CalSTRS and therefore the aggregate net pension liability as of year-end was reflected on the financial statements (see Note 13 in the Annual Financial Report). The unrestricted net position decreased \$3.55 million to \$80.65 million or 4.6% (see Table 1).

(Table 1)

#### Comparative Condensed Statement of Net Position

	Governmental Activities	
	2019	2018
<b>Assets</b>		
Deposits and investments	\$ 135,811,855	\$ 156,330,601
Receivables	4,482,161	2,613,168
Prepaid expenses	33,839	28,032
Capital assets	268,579,315	246,843,053
Total Assets	<u>408,907,170</u>	<u>405,814,854</u>
<b>Deferred Outflows of Resources</b>	<u>25,887,650</u>	<u>27,755,718</u>
<b>Liabilities</b>		
Accounts payable and other current liabilities	9,103,543	5,139,991
Unearned revenue	1,252,028	1,247,799
Long-term liabilities other than pensions	156,522,958	172,837,682
Aggregate net pension liability	88,728,846	87,528,968
Net OPEB liability	50,776,965	47,673,174
Total Liabilities	<u>306,384,340</u>	<u>314,427,614</u>
<b>Deferred Inflows of Resources</b>	<u>7,196,174</u>	<u>7,201,301</u>
<b>Net position</b>		
Net investment in capital assets	165,803,012	154,016,570
Restricted	36,065,574	35,030,700
Unrestricted	(80,654,280)	(77,105,613)
Total Net Position	<u>\$ 121,214,306</u>	<u>\$ 111,941,657</u>

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019

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The District's net position increased by \$9.27 million for this fiscal year (see Table 2). The District's expenses for instruction, instruction related services, and pupil services, represented 74% of total expenses. The purely administrative activities of the District account for just 6% of total costs. The remaining 20% was spent in the areas of plant services and other expenses, including interest on long-term obligations, depreciation of capital assets and other outgo (see Figure 2).

(Table 2)

### Comparative Condensed Statement of Changes in Net Position

	Governmental Activities	
	2019	2018
<b>Revenues</b>		
Program revenues	\$ 17,745,559	\$ 15,214,100
General revenues:		
Taxes levied for general purposes	70,765,519	65,552,330
Taxes levied for debt service	19,330,482	18,454,531
Taxes levied for other specific purposes	2,578,091	2,467,094
Federal and State aid not restricted to specific purposes	12,108,498	12,052,781
Interest and investment earnings	957,621	687,626
Miscellaneous	6,095,038	15,030,515
Total Revenues	<u>129,580,808</u>	<u>129,458,977</u>
<b>Expenses</b>		
Instruction	63,818,408	60,009,007
Instruction Related Services	13,045,490	11,827,247
Pupil Services	12,297,196	12,294,922
General Administration	6,785,359	6,447,524
Plant Services	9,902,083	8,435,060
Other	14,459,623	12,543,218
Total Expenses	<u>120,308,159</u>	<u>111,556,978</u>
Increase In Net Position	<u>\$ 9,272,649</u>	<u>\$ 17,901,999</u>

# MORGAN HILL UNIFIED SCHOOL DISTRICT

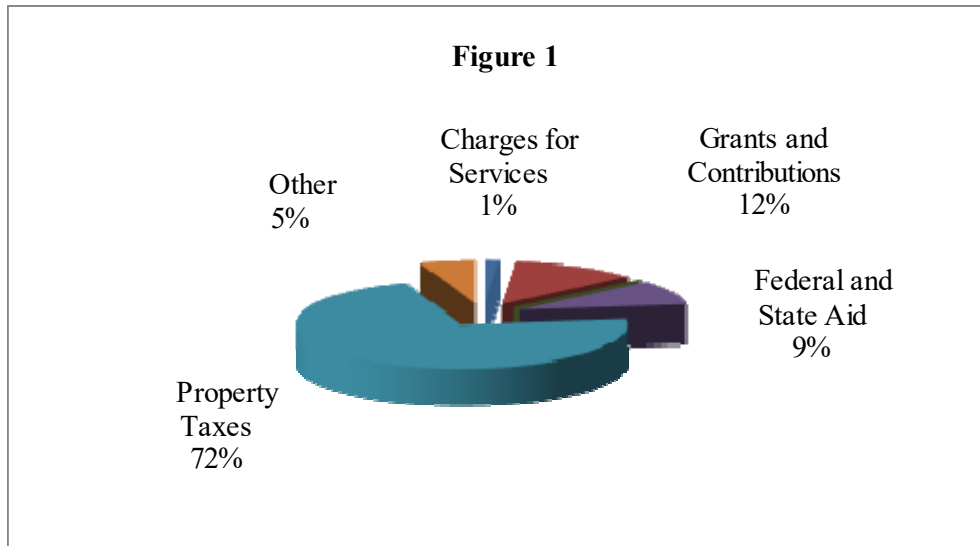
## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019

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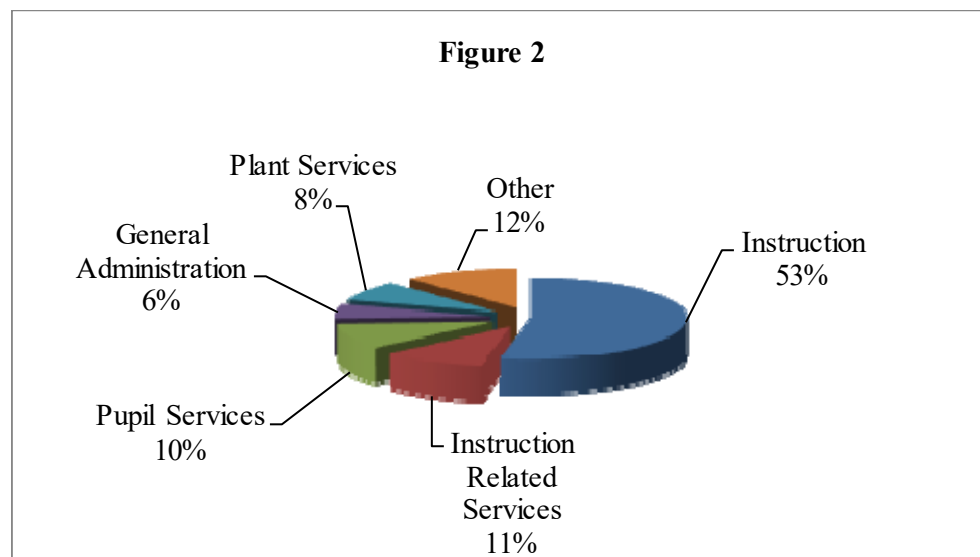
### Governmental Activities

As reported in the Statement of Activities, the cost of all the District's governmental activities this year was \$120 million. The amount that our local taxpayers financed for these activities through property taxes was \$93 million or 72% of all revenues. Federal and State aid not restricted to specific purposes totaled \$12 million or 9% (see Figure 1).

**Revenues for the 2018-2019 Fiscal Year**



**Expenses for the 2018-2019 Fiscal Year**



# MORGAN HILL UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019

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### FINANCIAL ANALYSIS OF THE FUND STATEMENTS

The fund financial statements focus on individual parts of the District's operations in more detail than the government-wide statements. The District's individual fund statements provide information on inflows and outflows and balances of spendable resources. The District's Governmental Funds reported a combined fund balance of \$132 million, a decrease of \$22 million from the previous fiscal year. This decrease is primarily the result of capital projects and a decrease in the Bond Interest and Redemption Fund.

#### General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget during each interim period. The significant budget adjustments fell into the following categories:

- Budget revisions to the adopted budget required after approval of the state budget.
- Budget revisions to update revenues to actual enrollment information and to update expenditures for staffing adjustments related to actual enrollment.
- Budget revisions to update revenues and expenses in compliance with current education code requirements.
- Other budget revisions are routine in nature, including adjustments to categorical revenues and expenditures based on final awards, and adjustments between expenditure categories for school and department budgets.

The District ended the year with a General Fund ending balance of \$29.7 million excluding the Special Reserve Fund for Non Capital and the Retiree Benefit Special Reserve Fund. The State recommends a minimum ending reserve for economic uncertainties of 3% of General Fund expenditures. The District's ending reserve was \$20.4 million or 20.82%.



# MORGAN HILL UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019

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### CAPITAL ASSET AND DEBT ADMINISTRATION

#### Capital Assets

By the end of the 2018-2019 fiscal year, the District had investments of about \$354 million in a broad range of capital assets, including school buildings, athletic facilities, administrative buildings, site improvements, vehicles, and equipment. The capital assets net of depreciation were valued at \$269 million at June 30, 2019 which is an increase of \$22 million from the previous year primarily due to the acquisition of real estate for a new elementary school and completed bond projects.

(Table 3)

#### Comparative Schedule of Capital Assets (net of depreciation) June 30, 2019 and 2018

	2019	2018	Difference	Percentage Change
Land	\$ 17,615,844	\$ 16,467,149	\$ 1,148,695	7.0%
Buildings and improvements	214,744,777	214,739,515	5,262	0.0%
Machinery and equipment	1,297,177	1,590,616	(293,439)	-18.4%
Work in progress	34,921,517	14,045,773	20,875,744	148.6%
Totals	<u>\$ 268,579,315</u>	<u>\$ 246,843,053</u>	<u>\$ 21,736,262</u>	8.8%

#### Long Term Obligations

As of June 30, 2019, the District had \$296 million in long-term obligations outstanding. The District participates in both CalPERS and CalSTRS and therefore the aggregate net pension liability as of year-end was reflected on the financial statements (see Note 13 in the Annual Financial Report).

(Table 4)

#### Comparative Schedule of Outstanding Debt June 30, 2019 and 2018

	2019	2018	Difference	Percentage Change
General obligation bonds (including premiums and accretions)	\$ 142,867,552	\$ 159,082,550	\$ (16,214,998)	-10.2%
Certificates of participation	13,394,287	13,380,447	13,840	0.1%
Compensated absences	261,119	374,685	(113,566)	-30.3%
Net OPEB obligation	50,776,965	47,673,174	3,103,791	6.5%
Net pension liability	88,728,846	87,528,968	1,199,878	1.4%
Totals	<u>\$ 296,028,769</u>	<u>\$ 308,039,824</u>	<u>\$ (12,011,055)</u>	-3.9%

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2019

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### COMPARATIVE AVERAGE DAILY ATTENDANCE SCHEDULE

This schedule provides a comparison of average daily attendance for the current and prior year.

Enrollment and average daily attendance (ADA) has experienced a decrease for the ninth year in a row. The schedule below depicts actual second period ADA from 2010-2011 to 2018-2019. Data excludes district students placed in County programs.

ADA P-2	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
Elementary	5,809	5,688	5,670	5,655	5,567	5,517	5,438	5,432	5,342
High School	2,733	2,686	2,651	2,516	2,553	2,532	2,603	2,582	2,523
Total ADA	8,542	8,374	8,321	8,208	8,119	8,049	8,042	8,014	7,865
ADA Change	(137.62)	(168.00)	(53.00)	(113.00)	(88.97)	(69.88)	(7.57)	(27.41)	(149.66)
% Change	-1.59%	-1.97%	-0.63%	-1.36%	-1.08%	-0.86%	-0.09%	-0.34%	-1.87%

### FACTORS BEARING ON THE DISTRICT'S FUTURE

Under the leadership of Superintendent Steve Betando, the District continues to focus on improving our students' test scores and enhancing our ability to identify those students to meet their individual needs. As part of the Local Control Accountability Plan, the District adopted three robust goals:

- **COLLEGE AND CAREER READINESS:** With an equity lens, the District will implement the Common Core State Standards (CCSS), Next Generation Science Standards (NGSS), and English Language Development (ELD) Standards to provide a strong grounding in core subject areas for all students.
- **PARENT ENGAGEMENT:** All parents are valued as partners in their child's education and are empowered to support their child's preparation for college or career readiness.
- **STUDENT ENGAGEMENT AND SCHOOL CLIMATE:** Increase student engagement, connectedness to school and community, and inspire productive persistence in all students to graduate college and be career ready.

In 2012-2013, Jackson became the District's first academy with a focus on math and music. Due to the success of the academy program and to expand choices for families, the District has opened four academies since 2014-2015: Walsh Elementary as a Science, Technology, Engineering, Arts, and Mathematics (STEAM Academy), San Martin-Gwinn as an Environmental Science Academy, Paradise Valley as an Engineering Academy, and El Toro as a Health Science Academy. The District continues to focus on assisting the students, parents and staff to ensure appropriate support to close this achievement gap.

The District provides post-employment health care benefits in accordance with the District's employment contracts. Administrative, classified, and certificated retirees who retire from the District on or after attaining age 55 receive post-employment health care benefits until the age of 65. In July 2009 the District implemented GASB 45 (Governmental Accounting Standards Board 45) and established a Special Reserve Fund for Post-Employment Benefits in compliance with GASB 45. The District selected the Frozen Entry Age funding method and made a one-time contribution from the General Fund of \$537,000 in 2008-2009.

# **MORGAN HILL UNIFIED SCHOOL DISTRICT**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2019**

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The Morgan Hill Board of Education and management will continue to provide the resources to ensure the support of our students' education within a balanced and managed budget.

### **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, parents, 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 additional financial information, please contact Victoria Knutson, Director of Fiscal Services, Morgan Hill Unified School District, 15600 Concord Circle, Morgan Hill, CA 95037.

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# MORGAN HILL UNIFIED SCHOOL DISTRICT

## STATEMENT OF NET POSITION JUNE 30, 2019

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Deposits and investments	\$ 135,811,855
Receivables	4,482,161
Prepaid expenses	33,839
Capital assets not depreciated	52,537,361
Capital assets, net of accumulated depreciation being depreciated	216,041,954
Total Assets	<u>408,907,170</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred amount on refunding	159,171
Deferred outflows of resources related to pensions	24,736,247
Deferred outflows - postemployment benefits other than pension (OPEB)	992,232
Total Deferred Outflows of Resources	<u>25,887,650</u>
<b>LIABILITIES</b>	
Accounts payable	6,908,383
Interest payable	2,195,160
Unearned revenue	1,252,028
Long-term obligations other than pensions and OPEB:	
Current portion	17,196,158
Noncurrent portion	139,326,800
Aggregate net pension liability	88,728,846
OPEB liability	50,776,965
Total Liabilities	<u>306,384,340</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows of resources related to OPEB	1,852,382
Deferred inflows of resources related to pensions	5,343,792
Total Deferred Inflows of Resources	<u>7,196,174</u>
<b>NET POSITION</b>	
Net investment in capital assets	165,803,012
Restricted for:	
Educational programs	4,085,974
Debt service	18,772,708
Capital projects	13,205,892
Unrestricted	(80,653,280)
Total Net Position	<u>\$ 121,214,306</u>

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

**MORGAN HILL UNIFIED SCHOOL DISTRICT**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2019**

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Position
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
<b>Governmental Activities:</b>				
Instruction	\$ 63,818,408	\$ 29,041	\$ 9,225,480	\$ (54,563,887)
Instruction-related activities:				
Supervision of instruction	3,801,229	96	686,386	(3,114,747)
Instructional library and technology	376,222	-	42,204	(334,018)
School site administration	8,868,039	1,710	973,770	(7,892,559)
Pupil services:				
Home-to-school transportation	3,158,075	1,820	99,509	(3,056,746)
Food services	3,135,467	514,514	1,722,343	(898,610)
All other pupil services	6,003,654	1,947	1,172,177	(4,829,530)
General administration:				
Data processing	1,734,567	69	55,000	(1,679,498)
All other general administration	5,050,792	28,592	612,218	(4,409,982)
Plant services	9,902,083	4,038	223,224	(9,674,821)
Ancillary services	870,631	-	29,249	(841,382)
Community services	27,111	-	-	(27,111)
Interest on long-term obligations	6,523,098	-	-	(6,523,098)
Other outgo	7,038,783	1,201,165	1,121,007	(4,716,611)
Total Governmental-Type Activities	<u>\$ 120,308,159</u>	<u>\$ 1,782,992</u>	<u>\$ 15,962,567</u>	<u>(102,562,600)</u>
<b>General Revenues and Subventions:</b>				
				70,765,519
Property taxes, levied for general purposes				19,330,482
Property taxes, levied for debt service				2,578,091
Taxes levied for other specific purposes				12,108,498
Federal and State aid not restricted to specific purposes				957,621
Interest and investment earnings				155,477
Intergovernmental revenues				5,939,561
Miscellaneous				<u>111,835,249</u>
Subtotal, General Revenues				9,272,649
<b>Change in Net Position</b>				
Net Position - Beginning				<u>111,941,657</u>
Net Position - Ending				<u>\$ 121,214,306</u>

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

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**MORGAN HILL UNIFIED SCHOOL DISTRICT**

**GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2019**

	<b>General Fund</b>	<b>Building Fund</b>	<b>Bond Interest Redemption Fund</b>
<b>ASSETS</b>			
Deposits and investments	\$ 36,673,925	\$ 64,298,606	\$ 20,893,261
Receivables	3,509,362	496,745	74,607
Due from other funds	375,813	1,400,000	-
Prepaid expenditures	33,839	-	-
Total Assets	\$ 40,592,939	\$ 66,195,351	\$ 20,967,868
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 3,430,271	\$ 3,433,545	\$ -
Due to other funds	1,700,000	-	-
Unearned revenue	1,252,028	-	-
Total Liabilities	6,382,299	3,433,545	-
<b>Fund Balances:</b>			
Nonspendable	48,339	-	-
Restricted	3,889,958	53,326,365	20,967,868
Committed	-	-	-
Assigned	9,882,252	9,435,441	-
Unassigned	20,390,091	-	-
Total Fund Balances	34,210,640	62,761,806	20,967,868
Total Liabilities and Fund Balances	\$ 40,592,939	\$ 66,195,351	\$ 20,967,868

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



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<b>Non-Major Governmental Fund</b>	<b>Total Governmental Funds</b>
\$ 13,946,063	\$ 135,811,855
401,447	4,482,161
307,333	2,083,146
-	33,839
<u>\$ 14,654,843</u>	<u>\$ 142,411,001</u>

\$ 44,567	\$ 6,908,383
383,146	2,083,146
-	1,252,028
<u>427,713</u>	<u>10,243,557</u>

6,000	54,339
13,401,908	91,586,099
820,222	820,222
-	19,317,693
(1,000)	20,389,091
<u>14,227,130</u>	<u>132,167,444</u>

<u>\$ 14,654,843</u>	<u>\$ 142,411,001</u>
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**MORGAN HILL UNIFIED SCHOOL DISTRICT**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2019**

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**Total Fund Balance - Governmental** **\$ 132,167,444**

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.

The cost of capital assets is	\$ 353,762,209	
Accumulated depreciation is	(85,182,894)	
Net Capital Assets		268,579,315

Deferred charges on refunding related to the loss on refunding of debt which is classified as a deferred outflow of resources and expensed over the life of the debt on the government-wide financial statements, but was recorded as an expenditure in the governmental fund statements when the debt was issued. 159,171

Deferred inflows and outflows from pension activities are not recognized on the governmental funds, but are recognized on the government-wide statements. 19,392,455

Deferred inflows and outflows from OPEB activities are not recognized on the governmental funds, but are recognized on the government-wide statements. (860,150)

In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide statements, unmatured interest on long-term obligations is recognized when it is incurred. (2,195,160)

Long-term obligations, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year end consist of:

Bonds payable and premiums	(142,867,552)	
COP payable and discounts	(13,394,287)	
Compensated absences (vacations)	(261,119)	
Net pension liability	(88,728,846)	
Total OPEB liability	(50,776,965)	
Total Long-Term Obligations		(296,028,769)

**Total Net Position - Governmental Activities** **\$ 121,214,306**

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

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**MORGAN HILL UNIFIED SCHOOL DISTRICT**

**GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2019**

	<b>General Fund</b>	<b>Building Fund</b>	<b>Bond Interest and Redemption Fund</b>
<b>REVENUES</b>			
Local control funding formula	\$ 78,592,160	\$ -	\$ -
Federal sources	3,997,553	697,766	-
Other state sources	11,961,256	25,836	91,903
Other local sources	4,988,679	1,638,477	19,437,803
Total Revenues	<u>99,539,648</u>	<u>2,362,079</u>	<u>19,529,706</u>
<b>EXPENDITURES</b>			
Current			
Instruction	56,308,984	-	-
Instruction-related activities:			
Supervision of instruction	3,333,248	-	-
Instructional library, media and technology	306,308	-	-
School site administration	7,522,043	-	-
Pupil services:			
Home-to-school transportation	2,852,811	-	-
Food services	23,305	-	-
All other pupil services	5,241,749	-	-
General administration:			
Data processing	1,533,126	-	-
All other general administration	4,411,311	-	-
Plant services	8,433,166	70,752	-
Ancillary services	766,362	-	-
Community services	23,913	-	-
Other outgo	4,537,996	-	-
Capital outlay	241,973	27,423,230	-
Debt service			
Principal	-	-	15,860,000
Interest and other	-	958,855	5,462,449
Total Expenditures	<u>95,536,295</u>	<u>28,452,837</u>	<u>21,322,449</u>
Excess (Deficiency) of			
Revenues Over Expenditures	<u>4,003,353</u>	<u>(26,090,758)</u>	<u>(1,792,743)</u>
Other Financing Sources (Uses):			
Transfers in	82,319	1,812,794	-
Transfers out	(2,418,468)	-	-
Net Financing Sources (Uses)	<u>(2,336,149)</u>	<u>1,812,794</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>1,667,204</u>	<u>(24,277,964)</u>	<u>(1,792,743)</u>
Fund Balance - Beginning	32,543,436	87,039,770	22,760,611
Fund Balance - Ending	<u>\$ 34,210,640</u>	<u>\$ 62,761,806</u>	<u>\$ 20,967,868</u>

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

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<b>Non-Major Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 300,000	\$ 78,892,160
1,659,332	6,354,651
1,039,046	13,118,041
4,114,145	30,179,104
<u>7,112,523</u>	<u>128,543,956</u>
349,125	56,658,109
75,200	3,408,448
-	306,308
309,248	7,831,291
-	2,852,811
2,809,226	2,832,531
116,701	5,358,450
-	1,533,126
180,342	4,591,653
56,785	8,560,703
-	766,362
-	23,913
-	4,537,996
1,584,109	29,249,312
-	15,860,000
-	6,421,304
<u>5,480,736</u>	<u>150,792,317</u>
<u>1,631,787</u>	<u>(22,248,361)</u>
605,674	2,500,787
(82,319)	(2,500,787)
<u>523,355</u>	<u>-</u>
2,155,142	(22,248,361)
12,071,988	154,415,805
<u>\$ 14,227,130</u>	<u>\$ 132,167,444</u>

**MORGAN HILL UNIFIED 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, 2019**

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**Total Net Change in Fund Balances - Governmental Funds** **\$ (22,248,361)**

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

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

Capital outlays	\$ 28,961,442	
Depreciation expense	<u>(7,225,180)</u>	
Net Expense Adjustment		21,736,262

In the Statement of Activities, certain operating expenses, such as compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation amounts earned were more than the amounts used.

113,566

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

(4,369,215)

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

(1,717,809)

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

**MORGAN HILL UNIFIED 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, 2019**

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Amortization of premium, discount and defeasance cost of long-term liabilities is not recognized in the governmental funds, but they impact the Statement of Activities. The net amortization amount during the year is as follows:

Amortization of premium of general obligation bonds	354,998	
Amortization of discount of certificates of participation	<u>(13,840)</u>	
Net amortization		341,158

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

15,860,000

Interest on long-term debt is recorded as an expenditure in the funds when it is due; however, in the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

(363,366)

Amortization of gain or loss on refunding is not recorded in the governmental funds, but is amortized over the life of the bond in the statement of activities.

(79,586)

**Change in Net Position of Governmental Activities** **\$ 9,272,649**

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

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## FIDUCIARY FUND STATEMENT OF NET POSITION JUNE 30, 2019

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	<u>Agency Fund</u>
<b>ASSETS</b>	
Deposits and investments	\$ 842,822
Total Assets	<u>\$ 842,822</u>
<b>LIABILITIES</b>	
Due to student groups	\$ 842,822
Total Liabilities	<u>\$ 842,822</u>

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



# MORGAN HILL UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2019**

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Financial Reporting Entity**

The Morgan Hill Unified School District was unified on July 1, 1966 under the laws of the State of California. The District operates under a locally elected seven member Board form of government and provides educational services to grades K-12 as mandated by the State and/or Federal agencies. The District operates eight elementary, two middle, two high schools, a continuation high school and a community adult school as well as a home-schooling program.

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 Morgan Hill Unified School District, this includes general operations, food service, and student related activities of the District.

#### **Component Units**

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District, in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are 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 component unit, although a legally separate entity is reported in the financial statements using the blended presentation method as if it was part of the District's operations because the governing board of the component unit is essentially the same as the governing board of the District and because its purpose is to finance the construction of facilities to be used for the direct benefit of the District. The financial activity for this component unit is presented in the financial statements as the Capital Projects Fund.

#### **Basis of Presentation - Fund Accounting**

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

#### **Governmental Funds**

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

#### **Major Governmental Funds**

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

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

---

Two funds currently defined as special revenue funds in the California State Accounting Manual (CSAM) do not meet the GASB Statement No. 54 special revenue fund definition. Specifically, Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, and Fund 20, Special Reserve Fund for Post-employment Benefits, are not substantially composed of restricted or committed revenue sources. While these funds are authorized by statute and will remain open for internal reporting purposes, these funds function effectively as extensions of the General Fund, and accordingly have been combined with the General Fund for presentation in these audited financial statements.

**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.

**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).

### Non-Major Governmental Funds

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

**Adult Education Fund** The Adult Education Fund is used to account separately for Federal, State, and local revenues that are restricted or committed 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 revenues that are restricted or committed for deferred maintenance purposes (*Education Code* Section 17582).

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

---

**Capital Project Funds** The Capital Project funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and other capital assets (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).

**Capital Project Fund for Blended Component Units** This fund is used to account for capital projects financed by parcel taxes, upon approval of the voters during 2006-2007.

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

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) and scholarship activities.

### **Basis of Accounting - Measurement Focus**

**Government-Wide Financial Statements** The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. 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, for each governmental function, and excludes fiduciary activity. Direct expenses are those that are specifically associated with a service, program, or department and are therefore, clearly identifiable to a particular function. 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 is self-financing or draws from the general revenues of the District. Eliminations have been made to minimize the double counting of internal activities.

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

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

---

**Fund Financial Statements** Fund financial statements report detailed information about the District. The focus of governmental and proprietary fund 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. The internal service fund is presented in a single column on the face of the proprietary fund statement.

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

**Revenues – Exchange and Non-Exchange Transactions** Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year, or 365 days. 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 restrictions. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

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

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

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**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. Principal and interest on long-term obligations, which have 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 government-wide statements.

### **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. Cash equivalents also include cash with county treasury balances.

### **Investments**

Investments held at June 30, 2019 with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and state investment pools are determined by the program sponsor.

### **Stores Inventories**

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

### **Capital Assets and Depreciation**

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. Capital assets are long-lived assets of the District. The District maintains a capitalization threshold of \$20,000. 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 position. The valuation basis for capital assets is historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Depreciation is computed using 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. Donated capital assets are capitalized at estimated fair market value on the date donated.

### **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 columns of the statement of net position.

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2019**

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### **Compensated Absences**

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

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

### **Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities, and long-term obligations are reported in the government-wide and proprietary fund 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 governmental 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.

### **Deferred Outflows/Inflows of Resources**

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

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The District reports deferred inflows of resources for deferred charges on refunding of debt, for pension related items, and for OPEB related items.

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

---

### Pensions

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

### Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the District Plan and additions to/deductions from the District Plan have been determined on the same basis. For this purpose, the District Plan recognizes benefit payments when due and payable in accordance with the benefit terms.

### Debt Premiums and Discounts

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

### Fund Balances - Governmental Funds

As of June 30, 2019, fund balances of the governmental funds are classified as follows:

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

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

**Committed** - amounts that can be used only for specific purposes determined by a formal action of the governing board. The governing board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions or other action as approved by the governing board.

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

**Unassigned** - all other spendable amounts.

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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### Spending Order Policy

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

### Net Position

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

### Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures 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 to the funds that initially paid for them are not presented in the financial statements. Interfund transfers are eliminated in the governmental columns 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.



# MORGAN HILL UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

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

### Change in Accounting Principles

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The District has implemented the provisions of this Statement as of June 30, 2019. There was no material impact from adoption.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The District has implemented the provisions of this Statement as of June 30, 2019. There was no material impact from adoption.

### New Accounting Pronouncements Effective in Future Fiscal Year

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for the reporting periods beginning after December 15, 2018. Early implementation is encouraged. The District has not determined the effect of the statement.

In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The requirements of this Statement are effective for the reporting periods beginning after December 15, 2019. Early implementation is encouraged. The District has not determined the effect of the statement.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively. The District has not determined the effect of the statement.

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

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In August 2018, the GASB issued Statement 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 60*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The requirements of this Statement should be applied prospectively. The District has not determined the effect of the statement.

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The requirements of this Statement are effective for the reporting periods beginning after December 15, 2020. Early implementation is encouraged. The District has not determined the effect of the statement.

### NOTE 2 - DEPOSITS AND INVESTMENTS

#### Summary of Deposits and Investments

Deposits and investments as of June 30, 2019, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 135,811,855
Fiduciary fund	842,822
Total Deposits and Investments	<u>\$ 136,654,677</u>

Deposits and investments as of June 30, 2019, consist of the following:

Cash on hand and in banks	\$ 860,406
Cash in revolving	20,500
Investments	135,773,771
Total Deposits and Investments	<u>\$ 136,654,677</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.

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2019**

**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. This pool is not registered with Security Exchange Commission.

### General Authorizations

Limitations as they relate to interest rate 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
Supranational Obligations	5 years	30%	10%

### 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 Pool and money market accounts.

**MORGAN HILL UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2019**

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

Investment Type	Cost	Fair Value	Maturity
Natixis Guaranteed Investment Contract	\$ 7,149,706	\$ 7,149,706	5/3/2027
Money Market	545,679	545,679	Less than a year
County Pool	128,078,386	128,429,212	436
Total	\$ 135,773,771	\$ 136,124,597	

**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.

Investment Type	Fair Value	Rating Unrated
Natixis Guaranteed Investment Contract	\$ 7,149,706	\$ 7,149,706
Money Market	545,679	545,679
County Pool	128,429,212	128,429,212
Total	\$ 136,124,597	\$ 136,124,597

**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. The District had no significant exposure with respect to custodial credit risk. On June 30, 2019, District bank balances of \$545,679 were exposed to custodial credit risk because they were uninsured but were 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 the District, \$7,149,706 is exposed to custodial credit risk because the related securities are uninsured, unregistered and held by the brokerage firm which is also the counterparty for these securities.

**MORGAN HILL UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2019**

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**Fair Value Measurements**

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

- Level 1 inputs – quoted prices in active markets for identical assets.
- Level 2 inputs – quoted prices in active or inactive for the same or similar assets.
- Level 3 inputs – estimates using the best information available when there is little or no market.

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

**NOTE 3 - RECEIVABLES**

Receivables at June 30, 2019, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
Federal Government					
Categorical aid	\$ 1,854,357	\$ -	\$ -	\$ 300,071	\$ 2,154,428
State Government					
Categorical aid	766,860	-	-	25,899	792,759
Lottery	407,940	-	-	-	407,940
Local Government					
Interest	222,388	333,525	74,607	75,139	705,659
Other Local Sources	257,817	163,220	-	338	421,375
Total	<u>\$ 3,509,362</u>	<u>\$ 496,745</u>	<u>\$ 74,607</u>	<u>\$ 401,447</u>	<u>\$ 4,482,161</u>

**MORGAN HILL UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2019, was as follows:

	Balance July 1, 2018	Additions	Deductions	Balance June 30, 2019
<b>Governmental Activities</b>				
Capital Assets Not Being Depreciated:				
Land	\$ 16,467,149	\$ 1,148,695	\$ -	\$ 17,615,844
Construction in progress	14,045,773	27,812,747	6,937,003	34,921,517
Total Capital Assets Not Being Depreciated	<u>30,512,922</u>	<u>28,961,442</u>	<u>6,937,003</u>	<u>52,537,361</u>
Capital Assets Being Depreciated:				
Buildings and improvements	291,141,601	6,937,003	320,460	297,758,144
Furniture and equipment	3,567,730	-	101,026	3,466,704
Total Capital Assets Being Depreciated	<u>294,709,331</u>	<u>6,937,003</u>	<u>421,486</u>	<u>301,224,848</u>
Total Capital Assets	<u>325,222,253</u>	<u>35,898,445</u>	<u>7,358,489</u>	<u>353,762,209</u>
Less Accumulated Depreciation:				
Buildings and improvements	76,402,086	6,931,741	320,460	83,013,367
Furniture and equipment	1,977,114	293,439	101,026	2,169,527
Total Accumulated Depreciation	<u>78,379,200</u>	<u>7,225,180</u>	<u>421,486</u>	<u>85,182,894</u>
 Governmental Activities Capital Assets, Net	 <u>\$ 246,843,053</u>	 <u>\$ 28,673,265</u>	 <u>\$ 6,937,003</u>	 <u>\$ 268,579,315</u>

Depreciation expense was charged as a direct expense to governmental activities as follows:

<b>Governmental Activities</b>	
Instruction	\$ 4,321,676
Supervision of instruction	259,984
Instructional library, media and technology	23,364
School site administration	597,342
Home-to-school transportation	217,602
Food services	216,055
All other pupil services	408,723
Ancillary services	58,455
Community services	1,824
Data processing	116,941
All other general administration	350,235
Plant services	652,979
Total Depreciation Expense All Activities	<u>\$ 7,225,180</u>

**MORGAN HILL UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 5 - INTERFUND TRANSACTIONS**

**Interfund Receivables/Payables (Due To/Due From)**

Due To	Due From			Total
	General Fund	Building Fund	Non-Major Governmental Funds	
General Fund	\$ -	\$ 1,400,000	\$ 300,000	\$ 1,700,000
Non-Major Governmental Funds	375,813	-	7,333	383,146
Total	<u>\$ 375,813</u>	<u>\$ 1,400,000</u>	<u>\$ 307,333</u>	<u>\$ 2,083,146</u>

**Operating Transfers**

Interfund transfers for the year ended June 30, 2019, consisted of the following:

Transfer Out	Transfer In			Total
	General Fund	Building Fund	Non-Major Governmental Funds	
General Fund	\$ -	\$ 1,812,794	\$ 605,674	\$ 2,418,468
Capital Facilities Fund	82,319	-	-	82,319
Total	<u>\$ 82,319</u>	<u>\$ 1,812,794</u>	<u>\$ 605,674</u>	<u>\$ 2,500,787</u>

Capital Facilities Fund transferred to General Fund pursuant to *Education Code*

17620(a)(5), a three percent fee is collected on developer fees for reimbursement of administrative costs incurred in collecting the fees.	\$ 82,319
General Fund transferred to Adult Education Fund to serve concurrently enrolled students.	7,333
General Fund transferred to Cafeteria Fund for covering Cafeteria Fund's deficit spending.	598,341
General Fund transferred to Building Fund to cover the cost of the solar programs.	<u>1,812,794</u>
Total	<u>\$ 2,500,787</u>

**MORGAN HILL UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2019**

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**NOTE 6 - DEFERRED AMOUNT ON REFUNDING**

Deferred outflows of resources is a consumption of net position by the District that is applicable to a future reporting period. The \$159,171 balance of the deferred amounts on refunding at June 30, 2019 will be recognized as an expense and as a decrease in net position over the remaining life of related bonds.

Deferred amount on refunding at June 30, 2019 is as follows:

	Balance July 1, 2018	Additions	Deductions	Balance June 30, 2019
Deferred amounts on refunding	\$ 238,757	\$ -	\$ 79,586	\$ 159,171

**NOTE 7 - ACCOUNTS PAYABLE**

Accounts payable at June 30, 2019, consisted of the following:

	General Fund	Building Fund	Non-Major Governmental Funds	Total
Vendor payables	\$ 1,987,385	\$ 3,433,545	\$ 39,341	\$ 5,460,271
State principal apportionment	562,176	-	-	562,176
Salaries and benefits	880,710	-	5,226	885,936
Total	<u>\$ 3,430,271</u>	<u>\$ 3,433,545</u>	<u>\$ 44,567</u>	<u>\$ 6,908,383</u>

**NOTE 8 - UNEARNED REVENUE**

Unearned revenue at June 30, 2019, consists of the following:

	General Fund
Federal financial assistance	\$ 273,588
State categorical aid	3,338
Other local	975,102
Total	<u>\$ 1,252,028</u>



**MORGAN HILL UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 9 - LONG-TERM OBLIGATIONS OTHER THAN PENSION AND OPEB**

**Summary**

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

	Balance July 1, 2018	Additions	Deductions	Balance June 30, 2019	Due in One Year
GOBs	\$ 151,400,000	\$ -	\$ 15,860,000	\$ 135,540,000	\$ 16,855,000
Premium on GOBs	7,682,550	-	354,998	7,327,552	354,998
Sub-Total	159,082,550	-	16,214,998	142,867,552	17,209,998
COPs	13,505,000	-	-	13,505,000	-
Discount on COPS	(124,553)	-	(13,840)	(110,713)	(13,840)
Compensated Absences	374,685	-	113,566	261,119	-
Total	<u>\$ 172,837,682</u>	<u>\$ -</u>	<u>\$ 16,314,724</u>	<u>\$ 156,522,958</u>	<u>\$ 17,196,158</u>

The Bond Interest and Redemption fund is used to collect assessed property taxes which are used to repay the general obligation bonds (GOBs). Payment of certificate of participation (COPs) will be paid from General fund. Compensated absences will be paid by the fund for which the employee works.

**Bonded Debt**

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date (Aug 1)	Interest Rate	Original Issue	Bonds Outstanding July 1, 2018	Issued / Accreted Interest	Redeemed / Defeased	Bonds Outstanding June 30, 2019
2012	2042	2.00-3.25%	\$ 55,000,000	\$ 46,075,000	\$ -	\$ 195,000	\$ 45,880,000
2015	2020	2.00-5.00%	3,925,000	2,865,000	-	1,090,000	1,775,000
2015	2020	0.73-2.31%	31,805,000	22,460,000	-	8,740,000	13,720,000
2017	2047	2.69-5.00%	80,000,000	80,000,000	-	5,835,000	74,165,000
		Sub-Total		<u>\$ 151,400,000</u>	<u>\$ -</u>	<u>\$ 15,860,000</u>	135,540,000
					Unamortized premium on GOBs		7,327,552
					Total		<u>\$ 142,867,552</u>

**MORGAN HILL UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**Debt Service Requirements to Maturity**

The bonds mature through 2049 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2020	\$ 16,855,000	\$ 4,985,729	\$ 21,840,729
2021	8,950,000	4,539,944	13,489,944
2022	445,000	4,367,913	4,812,913
2023	540,000	4,348,213	4,888,213
2024	645,000	4,324,513	4,969,513
2025-2029	5,095,000	20,990,690	26,085,690
2030-2034	11,195,000	19,516,209	30,711,209
2035-2039	20,870,000	16,508,565	37,378,565
2040-2044	32,995,000	11,204,094	44,199,094
2045-2049	37,950,000	3,181,000	41,131,000
Total	\$ 135,540,000	\$ 93,966,870	\$ 229,506,870

**Certificates of Participation**

In May 2011, the Morgan Hill Unified School District issued certificates of participation in the amount of \$13,505,000 with interest rates ranging from 2 to 7.1 percent. As of June 30, 2019, the principal balance outstanding was \$13,505,000. The certificates mature through 2027 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2020	\$ -	\$ 958,855	\$ 958,855
2021	-	958,855	958,855
2022	-	958,855	958,855
2023	-	958,855	958,855
2024	-	958,855	958,855
2025-2027	13,505,000	2,876,565	16,381,565
Total	\$ 13,505,000	\$ 7,670,840	\$ 21,175,840

**Compensated Absences**

Compensated absences (unpaid employee vacation) for the District at June 30, 2019 amounted to \$261,119.

**MORGAN HILL UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2019**

**NOTE 10 - OTHER POST EMPLOYMENT BENEFIT (OPEB) LIABILITY**

For the fiscal year ended June 30, 2018, the District reported total OPEB liability (TOL), deferred outflows of resources, deferred inflows of resources, and OPEB expense for the following plans:

OPEB Plan	Total OPEB Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	OPEB Expense
District Plan	\$ 50,776,965	\$ 992,232	\$ 1,852,382	\$ 1,717,809

**Plan Administration**

The District's governing board administers the Postemployment Benefits Plan (the Plan). The Plan is a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for eligible retirees and their spouses. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

*Plan Membership*

At June 30, 2019, the Plan membership consisted of the following:

	Plan Members
Inactive employees or beneficiaries currently receiving benefits payments	331
Active employees	528
Total Plan Membership	859

*Benefits Provided*

The Plan provides medical, dental and vision insurance benefits to eligible retirees and their spouses. Benefits are provided through a third-party insurer, and the full cost of benefits is covered by the Plan. The District's governing board has the authority to establish and amend the benefit terms as contained within the negotiated labor agreements. The District's benefits are capped at \$9,000 annually.

*Contributions*

The contribution requirements of Plan members and the District are established and may be amended by the District, the District's bargaining units and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2018-2019, the District contributed \$1,466,115 to the Plan, all of which was used for current premiums.

**Total OPEB Liability of the District**

The District's total OPEB liability of \$50,776,965 was measured as of June 30, 2018, and the assumption used to calculate the total OPEB liability was determined by an actuarial valuation as of that date.

**MORGAN HILL UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2019**

*Actuarial Assumptions*

The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.98 percent
Salary increases	3 percent, average, including inflation
Investment rate of return	3.13 percent, net of OPEB plan investment expense, including inflation
Healthcare cost trend rates	4 percent for 2018

The discount rate was based on the Bond Buyer 20-bond General Obligation Index.

Mortality rates were based on the 2009 CalSTRS Mortality Table for certificated employees and the 2014 CalPERS Active Mortality for Miscellaneous Employees Table for classified employees. Mortality rates vary by age and sex. (Unisex mortality rates are not often used as individual OPEB benefits do not depend on the mortality table used.) If employees die prior to retirement, past contributions are available to fund benefits for employees who live to retirement. After retirement, death results in benefit termination or reduction. Although higher mortality rates reduce service costs, the mortality assumption is not likely to vary from employer to employer.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actual experience study for the period July 1, 2017 to June 30, 2018.

**Changes in the Total OPEB Liability**

Total OPEB Liability	
Service cost	\$ 1,818,977
Interest	1,469,226
Changes of assumptions	1,281,703
Benefit payments	(1,466,115)
Net change in total OPEB liability	<u>3,103,791</u>
Total OPEB liability - beginning	47,673,174
Total OPEB liability - ending	<u><u>\$ 50,776,965</u></u>

*Sensitivity of the Total OPEB Liability to Changes in the Discount Rate*

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

Discount Rate	Total OPEB liability
1% decrease (1.98%)	\$ 60,730,476
Current discount rate (2.98%)	50,776,965
1% increase (3.98%)	43,075,286

**MORGAN HILL UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2019**

*Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates*

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percent lower or higher than the current healthcare costs trend rates:

<u>Healthcare Cost Trend Rates</u>	<u>Total OPEB liability</u>
1% decrease (3%)	\$ 42,963,596
Current healthcare cost trend rate (4%)	50,776,965
1% increase (5%)	61,047,927

**OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

For the year ended June 30, 2019, the District recognized OPEB expense of \$1,717,809. At June 30, 2019, the District reported deferred outflows of resources for OPEB contributions subsequent to the measurement date of \$992,232. At June 30, 2019, the District reported deferred outflows of resources and deferred inflow of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
OPEB contributions subsequent to measurement date	\$ 992,232	\$ -
Changes of assumptions	-	1,852,382
Total	<u>\$ 992,232</u>	<u>\$ 1,852,382</u>

The deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the subsequent fiscal year.

The deferred inflows of resources related to the changes of assumptions will be amortized over the average of the expected remaining service lives of all employees. As of June 30, 2018, the average for District employees is 12.9 years. The deferred inflows will be recognized in OPEB expense as follows:

<u>Year Ended June 30,</u>	<u>Deferred Inflows of Resources</u>
2020	\$ (179,058)
2021	(179,058)
2022	(179,058)
2023	(179,058)
2024	(179,058)
Thereafter	(957,092)
Total	<u>\$ (1,852,382)</u>

**MORGAN HILL UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2019**

**NOTE 11 - FUND BALANCES**

Fund balances are composed of the following elements:

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
<b>Nonspendable</b>					
Revolving cash	\$ 14,500	\$ -	\$ -	\$ 6,000	\$ 20,500
Prepaid expenditures	33,839	-	-	-	33,839
Total Nonspendable	<u>48,339</u>	<u>-</u>	<u>-</u>	<u>6,000</u>	<u>54,339</u>
<b>Restricted</b>					
Legally restricted programs	3,889,958	-	-	-	3,889,958
Adult education program	-	-	-	196,016	196,016
Capital projects	-	53,326,365	-	13,205,892	66,532,257
Debt services	-	-	20,967,868	-	20,967,868
Total Restricted	<u>3,889,958</u>	<u>53,326,365</u>	<u>20,967,868</u>	<u>13,401,908</u>	<u>91,586,099</u>
<b>Committed</b>					
Adult education program	-	-	-	307,358	307,358
Deferred maintenance program	-	-	-	512,864	512,864
Total Committed	<u>-</u>	<u>-</u>	<u>-</u>	<u>820,222</u>	<u>820,222</u>
<b>Assigned</b>					
Special reserve-non capital	3,914,445	-	-	-	3,914,445
Retiree benefits	593,996	-	-	-	593,996
Capital projects	-	9,435,441	-	-	9,435,441
Various program carryover	5,373,811	-	-	-	5,373,811
Total Assigned	<u>9,882,252</u>	<u>9,435,441</u>	<u>-</u>	<u>-</u>	<u>19,317,693</u>
<b>Unassigned</b>					
Reserve for economic uncertainties	3,098,640	-	-	-	3,098,640
Remaining unassigned	17,291,451	-	-	(1,000)	17,290,451
Total Unassigned	<u>20,390,091</u>	<u>-</u>	<u>-</u>	<u>(1,000)</u>	<u>20,389,091</u>
Total	<u>\$34,210,640</u>	<u>\$62,761,806</u>	<u>\$20,967,868</u>	<u>\$14,227,130</u>	<u>\$132,167,444</u>

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

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### NOTE 12 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft, damage and destruction of assets; errors and omissions; injuries to employees; life and health of employees; and natural disasters. The District purchases commercial insurance for property damage with coverage up to a maximum of \$500 million, subject to various policy sublimits generally ranging from \$1 million to \$5 million. Employee health benefits are covered by a commercial insurance policy purchased by the District. The District provides health insurance benefits to District employees electing to participate in the plan by paying a monthly premium based on the number of District employees participating in the plan.

#### **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, 2019, the District contracted with Santa Clara County Schools Insurance Group 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 2019, the District participated in the Santa Clara County Schools Insurance Group, an insurance purchasing pool. The intent of the Santa Clara 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 Santa Clara 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 Santa Clara County Schools Insurance Group. Each participant pays its workers' compensation premium based on its individual rate. 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 Santa Clara County Schools Insurance Group. Participation in the Santa Clara County Schools Insurance Group is limited to districts that can meet the Santa Clara County Schools Insurance Group selection criteria.

#### **Employee Medical Benefits**

The District has contracted with the CalPERS Medical Insurance Plan to provide employee health benefits. Rates are set through an annual calculation process.

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

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### NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

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

For the fiscal year ended June 30, 2019, the District reported net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

<u>Pension Plan</u>	<u>Collective Net Pension Liability</u>	<u>Collective Deferred Outflows of Resources</u>	<u>Collective Deferred Inflows of Resources</u>	<u>Collective Pension Expense</u>
CalSTRS	\$ 60,948,651	\$ 16,571,282	\$ 5,343,792	\$ 7,232,492
CalPERS	27,780,195	8,164,965	-	5,707,914
Total	<u>\$ 88,728,846</u>	<u>\$ 24,736,247</u>	<u>\$ 5,343,792</u>	<u>\$ 12,940,406</u>

The details of each plan are as follows:

#### California State Teachers' Retirement System (CalSTRS)

##### **Plan Description**

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

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2018, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

##### **Benefits Provided**

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



# MORGAN HILL UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2019**

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

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

The STRP provisions and benefits in effect at June 30, 2019, are summarized as follows:

	STRP Defined Benefit Program	
	On or before	On or after
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	10.250%	10.205%
Required employer contribution rate	16.280%	16.280%
Required state contribution rate	9.828%	9.828%

### Contributions

Required member, District and State of California contributions rates are set by the California Legislature and the Governor and detailed in the Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven year period. The contribution rates for each plan for the year ended June 30, 2019, are presented above and the District's total contributions were \$5,989,025.

**MORGAN HILL UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2019**

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

At June 30, 2019, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related state support and the total portion of the net pension liability that was associated with the District were as follows:

Total net pension liability, including State share:

District's proportionate share of net pension liability	\$ 60,948,651
State's proportionate share of the net pension liability associated with the District	34,895,953
Total	<u>\$ 95,844,604</u>

The net pension liability was measured as of June 30, 2018. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportionate share for the measurement period June 30, 2018 and June 30, 2017, respectively was 0.0663 percent and 0.0685 percent, resulting in a net decrease in the proportionate share of 0.0022 percent.

For the year ended June 30, 2019, the District recognized its proportionate share pension expense of \$7,232,492. In addition, the District also recorded pension expense and revenue of \$4,099,488 for support provided by the State. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u>\$</u>	<u>\$</u>
Pension contributions subsequent to measurement date	5,989,025	-
Difference between projected and actual earnings on pension plan investments	-	(2,346,908)
Differences between expected and actual experience in the measurement of the total pension liability	188,999	(885,313)
Change in assumption	9,468,537	-
Change in proportions	924,721	(2,111,571)
Total	<u>\$ 16,571,282</u>	<u>\$ (5,343,792)</u>

**MORGAN HILL UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2019**

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

Year Ended June 30,	Deferred Inflows of Resources
2020	\$ 509,579
2021	(369,765)
2022	(1,968,964)
2023	(517,758)
Total	<u>\$ (2,346,908)</u>

All deferred outflows (inflows) of resources related to the net change in proportionate share of net pension liability, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 7 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows (Inflows) of Resources
2019	\$ 1,590,311
2020	1,590,311
2021	1,590,310
2022	1,406,738
2023	1,659,586
2024	(251,883)
Total	<u>\$ 7,585,373</u>

**Actuarial Methods and Assumptions**

Total pension liability for STRP was determined by applying updated procedures to the financial reporting actuarial valuation as of June 30, 2017, and rolling forward the total pension liability to June 30, 2018. The financial reporting actuarial valuation as of June 30, 2017, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2017
Measurement date	June 30, 2018
Experience study	July 1, 2010 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.10%
Investment rate of return	7.10%
Consumer price inflation	2.75%
Wage growth	3.50%

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2019**

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CalSTRS uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among its members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (Pension Consulting Alliance-PCA) as an input to the process. The actuarial investment rate of return assumption was adopted by the board in February 2017 in conjunction with the most recent experience study. For each future valuation, CalSTRS consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometrically-linked real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2018, are summarized in the following table:

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

### **Discount Rate**

The discount rate used to measure the total pension liability was 7.10 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.10 percent) and assuming that contributions, benefit payments and administrative expense occurred midyear. Based on these assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2019**

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

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.10%)	\$ 89,282,641
Current discount rate (7.10%)	60,948,651
1% increase (8.10%)	37,457,023

### **California Public Employees Retirement System (CalPERS)**

#### **Plan Description**

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

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2017 annual actuarial valuation reports, Schools Pool Actuarial Valuation, and the Risk Pool Actuarial Valuation Report, Safety. These reports and CalPERS audited financial information are publicly available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/forms-publications>.

#### **Benefits Provided**

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

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2019**

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The CalPERS provisions and benefits in effect at June 30, 2019, are summarized as follows:

	School Employer Pool (CalPERS)	
	On or before	On or after
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.00%	7.00%
Required employer contribution rate	18.062%	18.062%

### Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2019, are presented above and the total District contributions were \$2,582,166.

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

As of June 30, 2019, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$27,780,195. The net pension liability was measured as of June 30, 2018. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2018 and June 30, 2017, respectively was 0.1042 percent and 0.1014 percent, resulting in a net increase in the proportionate share of 0.0028 percent.

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

For the year ended June 30, 2019, the District recognized pension expense of \$5,707,914. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources
Pension contributions subsequent to measurement date	\$ 2,582,166
Change in assumption	2,773,730
Difference between projected and actual earnings on pension plan investments	227,859
Differences between expected and actual experience in the measurement of the total pension liability	1,821,168
Changes in Proportions	760,042
Total	<u>\$ 8,164,965</u>

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

Year Ended June 30,	Deferred Outflows of Resources
2020	\$ 828,777
2021	198,194
2022	(635,142)
2023	(163,970)
Total	<u>\$ 227,859</u>

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

Year Ended June 30,	Deferred Outflows (Inflows) of Resources
2020	\$ 2,489,569
2021	2,185,551
2022	679,820
Total	<u>\$ 5,354,940</u>

**MORGAN HILL UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2019**

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**Actuarial Methods and Assumptions**

Total pension liability for the SEP was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2017, and rolling forward the total pension liability to June 30, 2018. The financial reporting actuarial valuation as of June 30, 2017, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2017
Measurement date	June 30, 2018
Experience study	July 1, 1997 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.15%
Investment rate of return	7.15%
Consumer price inflation	2.50%
Wage growth	Varies by entry age and service

The mortality table used was developed based on CalPERS-specific data. The table includes 20 years of mortality improvements using Society of Actuaries 90 percent of scale MP-2016.

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

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	50%	5.98%
Fixed income	28%	2.62%
Inflation assets	0%	1.81%
Private equity	8%	7.23%
Real assets	13%	4.93%
Liquidity	1%	-0.92%



# MORGAN HILL UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2019**

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### **Discount Rate**

The discount rate used to measure the total pension liability was 7.15 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

<u>Discount rate</u>	<u>Net Pension Liability</u>
1% decrease (6.15%)	\$ 30,701,724
Current discount rate (7.15%)	27,780,195
1% increase (8.15%)	12,147,066

### **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 Social Security.

### **On Behalf Payments**

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$3,220,671 (9.828 percent of annual payrolls) Contributions are no longer appropriated in the annual Budget Act for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. 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 on the financial statements.

Senate Bill 90 (Chapter 33, Statutes of 2019), which was signed by the Governor on June 27, 2019, appropriated for an additional 2018–2019 contribution on-behalf of school employers of \$2.246 billion for CalSTRS and \$904 million for CalPERS. A proportionate share of these CalSTRS and CalPERS contribution in the amount of \$2.34 million and \$0.94 million, respectively, has been recorded in these financial statements. On behalf payments related to these additional contributions have been excluded from the calculation of available reserves and have not been included in the budgeted amounts reported in the General Fund – Budgetary Comparison Schedule.

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2019**

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### 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, 2019.

#### Construction Commitments

As of June 30, 2019, the District had the following commitments with respect to unfinished capital projects:

Capital Project	Remaining Construction Commitment	Expected Date of Completion
Britton New Campus	\$ 14,465,679	6/1/2022
Paradise Valley MPR Modernization	157,856	6/1/2019
Paradise Valley Admin Office	105,363	6/1/2019
Nordstrom Classrooms	8,437,197	6/1/2020
Classroom Technology	27,533	10/1/2020
Borello	2,857,363	8/1/2019
Live Oak Admin Roof	195,280	8/1/2019
Sobrato Locker Room Plumbing Repair	376,350	1/1/2020
	<u>\$ 26,622,621</u>	

### NOTE 15 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS

The District is a member of the Santa Clara County Schools Insurance Group public entity risk pool (the pool). The District pays an annual premium to the applicable entity for its health, workers' compensation, and property liability coverage. The relationship between the District and the pool is such that it is not component unit of the District for financial reporting purposes.

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

The District has appointed one board member to the Governing Board of the Santa Clara County Schools Insurance Group.

During the year ended June 30, 2019, the District made a payment of \$978,167 for workers' compensation insurance and \$652,568 for property liability coverage to the Santa Clara County Schools Insurance Group.

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***REQUIRED SUPPLEMENTARY INFORMATION***

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**MORGAN HILL UNIFIED SCHOOL DISTRICT**

**GENERAL FUND  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2019**

	<b>Budgeted Amount</b>		<b>Actual</b>	<b>Variances -</b>
	<b>Original</b>	<b>Final</b>		<b>Positive (Negative)</b>
				<b>Final to Actual</b>
<b>REVENUES</b>				
Local control funding formula	\$ 77,861,952	\$ 78,237,735	\$ 78,592,160	\$ 354,425
Federal sources	3,405,514	5,148,174	3,997,553	(1,150,621)
Other state sources <sup>1</sup>	8,675,579	8,369,475	11,961,256	3,591,781
Other local sources	3,252,306	5,062,458	4,905,481	(156,977)
<b>Total Revenues</b>	<b>93,195,351</b>	<b>96,817,842</b>	<b>99,456,450</b>	<b>2,638,608</b>
<b>EXPENDITURES</b>				
Current				
Certificated salaries	38,299,337	39,352,843	38,405,000	947,843
Classified salaries	13,812,519	14,182,267	13,880,042	302,225
Employee benefits <sup>1</sup>	20,059,814	20,321,808	22,865,902	(2,544,094)
Books and supplies	2,894,363	5,920,768	3,581,372	2,339,396
Services and operating expenditures	11,608,283	13,892,285	12,169,838	1,722,447
Other outgo	4,494,052	4,539,184	4,357,655	181,529
Capital outlay	-	803,470	276,485	526,985
<b>Total Expenditures</b>	<b>91,168,368</b>	<b>99,012,625</b>	<b>95,536,295</b>	<b>3,476,331</b>
Excess of Revenues Over Expenditures	2,026,983	(2,194,783)	3,920,155	6,114,938
Other Financing Sources (Uses):				
Transfers in	1,319,496	1,572,729	82,319	(1,490,410)
Transfers out	(5,145,390)	(4,219,560)	(2,418,468)	1,801,092
<b>Net Financing Uses</b>	<b>(3,825,894)</b>	<b>(2,646,831)</b>	<b>(2,336,149)</b>	<b>310,682</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(1,798,911)</b>	<b>(4,841,614)</b>	<b>1,584,006</b>	<b>6,425,620</b>
Fund Balance - Beginning	28,118,193	28,118,193	28,118,193	-
Fund Balance - Ending	<u>\$ 26,319,282</u>	<u>\$ 23,276,579</u>	29,702,199	<u>\$ 6,425,620</u>
Special Reserve - Other than Capital Outlay Fund			3,914,445	
Retiree Benefits Fund			593,996	
<b>Fund Balance - Ending, GAAP</b>			<u>\$ 34,210,640</u>	

<sup>1</sup> The budgeted amounts do not include state on-behalf payment of \$2.34 million from CalSTRS and \$0.94 million from CalPERS related to SB 90.

See accompanying note to required supplementary information.

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## SCHEDULE OF CHANGES IN THE DISTRICT'S TOTAL OPEB LIABILITY AND RELATED RATIOS FOR THE YEAR ENDED JUNE 30, 2019

MEASUREMENT DATE, JUNE 30,	2018	2017
Total OPEB Liability		
Service cost	\$ 1,818,977	\$ 1,984,946
Interest	1,469,226	1,320,152
Changes of assumptions	1,281,703	(3,591,558)
Benefit payments	(1,466,115)	(1,508,907)
Net change in total OPEB liability	3,103,791	(1,795,367)
Total OPEB liability - beginning	47,673,174	49,468,541
Total OPEB liability - ending	<u>\$ 50,776,965</u>	<u>\$ 47,673,174</u>
Covered-employee payroll	<u>\$ 37,446,273</u>	<u>\$ 48,496,782</u>
District's net OPEB liability as a percentage of covered-employee payroll	<u>135.60%</u>	<u>98.30%</u>

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

See accompanying note to required supplementary information.

**MORGAN HILL UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY FOR THE YEAR ENDED JUNE 30, 2019**

MEASUREMENT DATE, JUNE 30,	2018	2017	2016
<b>CalSTRS</b>			
District's proportion of the net pension liability	0.0663%	0.0685%	0.0686%
District's proportionate share of the net pension liability	\$ 60,948,651	\$ 63,317,270	\$ 55,524,384
State's proportionate share of the net pension liability associated with the District	34,895,953	37,457,962	31,609,042
Total	\$ 95,844,604	\$ 100,775,232	\$ 87,133,426
District's covered payroll	\$ 36,382,579	\$ 36,639,182	\$ 34,366,785
District's proportionate share of the net pension liability as a percentage of its covered payroll	167.52%	172.81%	161.56%
Plan fiduciary net position as a percentage of the total pension liability	71%	69%	70%
<b>CalPERS</b>			
District's proportion of the net pension liability	0.1042%	0.1014%	0.0974%
District's proportionate share of the net pension liability	\$ 27,780,195	\$ 24,211,698	\$ 19,240,492
District's covered payroll	\$ 13,744,412	\$ 12,933,837	\$ 11,687,917
District's proportionate share of the net pension liability as a percentage of its covered payroll	202.12%	187.20%	164.62%
Plan fiduciary net position as a percentage of the total pension liability	71%	72%	74%

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

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<u>2015</u>	<u>2014</u>
<u>0.0700%</u>	<u>0.0670%</u>
\$ 47,100,020	\$ 39,151,313
<u>24,910,718</u>	<u>23,641,253</u>
<u>\$ 72,010,738</u>	<u>\$ 62,792,566</u>
<u>\$ 29,917,624</u>	<u>\$ 30,099,374</u>
<u>157.43%</u>	<u>130.07%</u>
<u>74%</u>	<u>77%</u>
<u>0.0960%</u>	<u>0.0935%</u>
<u>\$ 14,155,717</u>	<u>\$ 10,616,563</u>
<u>\$ 10,633,088</u>	<u>\$ 9,812,471</u>
<u>133.13%</u>	<u>108.19%</u>
<u>79%</u>	<u>83%</u>

**MORGAN HILL UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF DISTRICT PENSION CONTRIBUTIONS  
FOR THE YEAR ENDED JUNE 30, 2019**

<b>FISCAL YEAR END, JUNE 30,</b>	<u>2019</u>	<u>2018</u>	<u>2017</u>
<b>CalSTRS</b>			
Contractually required contribution	\$ 5,989,025	\$ 5,245,292	\$ 4,599,667
Contributions in relation to the contractually required contribution	<u>5,989,025</u>	<u>5,245,292</u>	<u>4,599,667</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 District's covered payroll	 <u>\$ 36,789,958</u>	 <u>\$ 36,382,579</u>	 <u>\$ 36,639,182</u>
 Contributions as a percentage of covered payroll	 <u>16.28%</u>	 <u>14.42%</u>	 <u>12.55%</u>
 <b>CalPERS</b>			
Contractually required contribution	\$ 2,582,166	\$ 2,135,702	\$ 1,795,108
Contributions in relation to the contractually required contribution	<u>2,582,166</u>	<u>2,135,702</u>	<u>1,795,108</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 District's covered payroll	 <u>\$ 14,383,598</u>	 <u>\$ 13,744,412</u>	 <u>\$ 12,933,837</u>
 Contributions as a percentage of covered payroll	 <u>17.95%</u>	 <u>15.54%</u>	 <u>13.88%</u>

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

See accompanying note to required supplementary information.



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<u>2016</u>	<u>2015</u>
\$ 3,688,822	\$ 2,909,037
<u>3,688,822</u>	<u>2,909,037</u>
<u>\$ -</u>	<u>\$ -</u>
<u>\$ 34,366,785</u>	<u>\$ 29,917,624</u>
<u>10.73%</u>	<u>9.72%</u>

\$ 1,384,676	\$ 1,216,638
<u>1,384,676</u>	<u>1,216,638</u>
<u>\$ -</u>	<u>\$ -</u>
<u>\$ 11,687,917</u>	<u>\$ 10,633,088</u>
<u>11.85%</u>	<u>11.44%</u>

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2019

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### NOTE 1 - PURPOSE OF SCHEDULES

#### **Budgetary Comparison Schedule**

The District employs budget control by object codes and by individual appropriation accounts. Budgets are prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United State of America as prescribed by the Governmental Accounting Standards Board and provisions of the California *Education Code*. The governing board is required to hold a public hearing and adopt an operating budget no later than July 1 of each year. 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.

#### **Schedule of Changes in the District's Total OPEB Liability (TOL) and Related Ratios**

This schedule presents information on the District's changes in the total OPEB liability, including beginning and ending balances. In the future, as data becomes available, ten years of information will be presented.

*Change in Benefit Terms* – There were no changes in the benefit terms since the previous valuation.

*Change of Assumptions* – Discount rate change from 3.13% to 2.98%.

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

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

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

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

#### **Schedule of District Pension Contributions**

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

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***SUPPLEMENTARY INFORMATION***

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**MORGAN HILL UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2019**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
Passed through California Department of Education (CDE):			
Title I - Basic Grants Low Income and Neglected	84.010	14329	\$ 797,818
Title I - Migrant Education	84.011	14838	294,813
Title I - Migrant Education Summer Program	84.011	10005	39,872
Title I - Migrant Ed Even Start Program	84.011	14768	79,532
Title II - Improving Teacher Quality	84.367	14341	220,625
Title III - Limited English Proficient (LEP) Student Program	84.365	14346	141,527
Title III - Immigrant Education Program	84.365	15146	420
Title IV - Student Support and Academic Enrichment Grants	84.424	15391	379,209
Rehabilitation Services-Vocational Rehabilitation	84.126	10006	196,141
Individuals with Disabilities Act (IDEA):			
Basic Local Assistance Entitlement	84.027	13379	1,472,900
IDEA, Part B, Section 611, Private Schools	84.027	10115	9,609
IDEA, Preschool Grants, Part B, Section 619	84.173	13430	45,304
IDEA, Mental Health Allocation Plan, Part B, Section 611	84.027A	14468	102,509
IDEA, Preschool Staff Development, Part B, Section 619	84.173A	13431	400
Subtotal for Special Education Cluster			<u>1,630,722</u>
Career and Technical Education	84.048	14894	51,933
Adult Education Act:			
Adult Basic Education	84.002A	14508	15,740
Adult Secondary Education	84.002	13978	95,150
English Literacy and Civics Education	84.002A	14109	7,315
Subtotal for Adult Education			<u>118,205</u>
Total U.S. Department of Education			<u>3,950,817</u>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Passed through CDE:			
Child Nutrition Act			
National School Lunch Program	10.555	13391	913,259
Especially Needy Breakfast	10.553	13526	329,696
Commodity Supplemental Food Program	10.555	13524	146,325
Subtotal for Child Nutrition Cluster			<u>1,389,280</u>
Child and Adult Care Food Program	10.558	N/A	151,847
Total U.S. Department of Agriculture			<u>1,541,127</u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
Passed through CDE:			
Medical Assistance Program	93.778	10013	94,575
Total U.S. Department of Human Services			<u>94,575</u>
Total Expenditures of Federal Awards			<u>\$ 5,586,519</u>

See accompanying note to supplementary information.

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2019

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### ORGANIZATION

The Morgan Hill Unified School District was established in 1966 and consists of an area comprising approximately 300 square miles. The District operates eight elementary schools, two middle schools, two high schools, one continuation, and one adult education school.

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Mary Patterson	President	2020
Wendy Sullivan	Member	2022
Adam Escoto	Member	2020
Carol Gittens	Vice President	2022
John Horner	Member	2022
Heather Orosco	Member	2022
Jeanne Gilliard	Member	2020

### ADMINISTRATION

Steve Betando	Superintendent
Kirsten Perez	Assistant Superintendent of Business Services
Sharon Fawn Myers	Assistant Superintendent of Human Resources
Pilar Vazquez-Vialva	Assistant Superintendent of Educational Services

See accompanying note to supplementary information.

**MORGAN HILL UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF AVERAGE DAILY ATTENDANCE  
FOR THE YEAR ENDED JUNE 30, 2019**

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	2,290.20	2,295.00
Fourth through sixth	1,795.20	1,794.42
Seventh and eighth	1,239.72	1,236.60
Ninth through twelfth	2,515.02	2,495.88
Total Regular ADA	<u>7,840.14</u>	<u>7,821.90</u>
Extended Year Special Education		
Transitional kindergarten through third	4.23	4.23
Fourth through sixth	2.93	2.93
Seventh and eighth	0.91	0.91
Ninth through twelfth	1.63	1.63
Total Extended Year Special Education	<u>9.70</u>	<u>9.70</u>
Special Education, Nonpublic, Nonsectarian Schools		
Fourth through sixth	4.62	4.30
Seventh and eighth	2.75	2.43
Ninth through twelfth	5.42	5.55
Total Special Education, Nonpublic, Nonsectarian Schools	<u>12.79</u>	<u>12.28</u>
Extended Year Special Education - Non public, Nonsectarian Schools		
Fourth through sixth	0.61	0.61
Seventh and eighth	0.47	0.47
Ninth through twelfth	0.80	0.80
Total Extended Year Special Education - Non public, Nonsectarian School	<u>1.88</u>	<u>1.88</u>

See accompanying note to supplementary information.

**MORGAN HILL UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF INSTRUCTIONAL TIME  
FOR THE YEAR ENDED JUNE 30, 2019**

Grade Level	1986-1987 Minutes Requirement	2018-2019 Actual Minutes	Number of Days		Status
			Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	55,350	180	N/A	Complied
Grades 1 - 3					
Grade 1	50,400	50,925	180	N/A	Complied
Grade 2	50,400	50,925	180	N/A	Complied
Grade 3	50,400	50,925	180	N/A	Complied
Grades 4 - 6					
Grade 4	54,000	54,180	180	N/A	Complied
Grade 5	54,000	54,180	180	N/A	Complied
Grade 6	54,000	54,525	180	N/A	Complied
Grades 7 - 8					
Grade 7	54,000	54,525	180	N/A	Complied
Grade 8	54,000	56,010	180	N/A	Complied
Grades 9 - 12					
Grade 9	64,800	65,014	180	N/A	Complied
Grade 10	64,800	65,014	180	N/A	Complied
Grade 11	64,800	65,014	180	N/A	Complied
Grade 12	64,800	65,014	180	N/A	Complied

See accompanying note to supplementary information.

**MORGAN HILL UNIFIED SCHOOL DISTRICT**

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH  
AUDITED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2019**

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Summarized below are the fund balance reconciliations between the Unaudited Actual Financial Report and the audited Financial Statements.

	<u>General</u>	<u>Special Reserve Other</u>	<u>Special Reserve Retiree Benefits</u>
FUND BALANCE			
Balance, June 30, 2019, Unaudited Actuals	\$ 29,702,199	\$ 3,914,445	\$ 593,996
As a result of the implementation of GASB Statement No. 54, Fund 17 and Fund 20 are combined into the financial statement.	4,508,441	(3,914,445)	(593,996)
Balance, June 30, 2019, Audited Financial Statement	<u>\$ 34,210,640</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying note to supplementary information.



**MORGAN HILL UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2019**

	(Budget)			
	2020 <sup>1</sup>	2019	2018	2017
GENERAL FUND <sup>3</sup>				
Revenues	\$ 93,574,237	\$ 99,456,450	\$ 90,006,743	\$ 88,789,112
Transfers in	66,000	82,319	83,736	64,907
Total Revenues and Transfers In	<u>93,640,237</u>	<u>99,538,769</u>	<u>90,090,479</u>	<u>88,854,019</u>
Expenditures	93,801,282	95,536,295	89,443,633	87,269,541
Transfers out	1,315,502	2,418,468	2,141,701	1,236,768
Total Expenditures and Transfers Out	<u>95,116,784</u>	<u>97,954,763</u>	<u>91,585,334</u>	<u>88,506,309</u>
INCREASE (DECREASE) IN FUND BALANCE	<u>\$ (1,476,547)</u>	<u>\$ 1,584,006</u>	<u>\$ (1,494,855)</u>	<u>\$ 347,710</u>
ENDING FUND BALANCE	<u>\$ 28,225,652</u>	<u>\$ 29,702,199</u>	<u>\$ 28,118,193</u>	<u>\$ 29,613,048</u>
AVAILABLE RESERVES <sup>2</sup>	<u>\$ 18,324,160</u>	<u>\$ 20,390,091</u>	<u>\$ 18,360,543</u>	<u>\$ 18,501,650</u>
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	<u>19.26%</u>	<u>20.82%</u>	<u>20.05%</u>	<u>20.90%</u>
LONG-TERM OBLIGATIONS	<u>\$ 139,299,120</u>	<u>\$ 156,522,958</u>	<u>\$ 172,837,682</u>	<u>\$ 96,437,412</u>
K-12 AVERAGE DAILY ATTENDANCE AT P-2	<u>7,855</u>	<u>7,865</u>	<u>8,014</u>	<u>8,042</u>

The General Fund balance has increased by \$89,151 over the past two years. The fiscal year 2019-2020 budget projects a decrease of \$1,476,547 (5 percent) in General Fund balance. 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 an operating surplus in two of the past three years, but anticipates incurring an operating deficit during the 2019-2020 fiscal year. Total long-term obligations have increased by \$60,085,546 over the past two years due to an \$80 million bond issuance in 2017-2018.

Average daily attendance has decreased by 177 over the past two years. A decrease of 10 ADA is anticipated during fiscal year 2019-2020.

<sup>1</sup> Budget 2020 is included for analytical purposes only and has not been subjected to audit.

<sup>2</sup> Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained with the General Fund, Special Reserve Non-Capital Fund and the Retiree Benefit Special Reserve Fund.

<sup>3</sup> General Fund amounts do not include activity related to the consolidation of the Special Reserve Non-Capital Fund and the Retiree Benefit Special Reserve Fund required by GASB Statement No. 54.

See accompanying note to supplementary information.

**MORGAN HILL UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF CHARTER SCHOOLS  
FOR THE YEAR ENDED JUNE 30, 2019**

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<u>Charter #</u>	<u>Name of Charter School</u>	<u>Included in Audit Report</u>
0363	The Charter School of Morgan Hill	No

See accompanying note to supplementary information.

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**MORGAN HILL UNIFIED SCHOOL DISTRICT**

**NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2019**

	<b>Adult Education Fund</b>	<b>Child Development Fund</b>	<b>Cafeteria Fund</b>
<b>ASSETS</b>			
Deposits and investments	\$ 431,425	\$ 33,485	\$ 47,290
Receivables	99,712	2,954	226,520
Due from other funds	7,333	-	-
Total Assets	<u>\$ 538,470</u>	<u>\$ 36,439</u>	<u>\$ 273,810</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 3,622	\$ 25,518	\$ 10,378
Due to other funds	26,474	10,921	263,432
Total Liabilities	<u>30,096</u>	<u>36,439</u>	<u>273,810</u>
<b>Fund Balances:</b>			
Nonspendable	5,000	-	1,000
Restricted	196,016	-	-
Committed	307,358	-	-
Unassigned	-	-	(1,000)
Total Fund Balances	<u>508,374</u>	<u>-</u>	<u>-</u>
Total Liabilities and Fund Balances	<u>\$ 538,470</u>	<u>\$ 36,439</u>	<u>\$ 273,810</u>

See accompanying note to supplementary information.

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<b>Deferred Maintenance Fund</b>	<b>Capital Facilities Fund</b>	<b>Capital Project Component Unit Fund</b>	<b>Total Non-Major Governmental Fund</b>
\$ 210,818	\$ 12,400,836	\$ 822,209	\$ 13,946,063
2,046	66,857	3,358	401,447
300,000	-	-	307,333
<u>\$ 512,864</u>	<u>\$ 12,467,693</u>	<u>\$ 825,567</u>	<u>\$ 14,654,843</u>
\$ -	\$ 4,633	\$ 416	\$ 44,567
-	82,319	-	383,146
<u>-</u>	<u>86,952</u>	<u>416</u>	<u>427,713</u>
-	-	-	6,000
-	12,380,741	825,151	13,401,908
512,864	-	-	820,222
-	-	-	(1,000)
<u>512,864</u>	<u>12,380,741</u>	<u>825,151</u>	<u>14,227,130</u>
<u>\$ 512,864</u>	<u>\$ 12,467,693</u>	<u>\$ 825,567</u>	<u>\$ 14,654,843</u>

**MORGAN HILL UNIFIED SCHOOL DISTRICT**

**NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2019**

	<b>Adult Education Fund</b>	<b>Child Development Fund</b>	<b>Cafeteria Fund</b>
<b>REVENUES</b>			
Local control funding formula	\$ -	\$ -	\$ -
Federal sources	118,205	-	1,541,127
Other state sources	610,438	166,221	262,387
Other local sources	21,629	1,607	545,318
Total Revenues	750,272	167,828	2,348,832
<b>EXPENDITURES</b>			
Current			
Instruction	192,218	156,907	-
Instruction-related activities:			
Supervision of instruction	75,200	-	-
School site administration	309,248	-	-
Pupil services:			
Food services	-	-	2,809,226
All other pupil services	116,701	-	-
General administration:			
All other general administration	26,474	10,921	142,947
Plant services	8,943	-	-
Capital outlay	-	-	-
Total Expenditures	728,784	167,828	2,952,173
Excess (Deficiency) of Revenues Over Expenditures	21,488	-	(603,341)
Other Financing Sources (Uses):			
Transfers in	7,333	-	598,341
Transfers out	-	-	-
Net Financing Sources (Uses)	7,333	-	598,341
<b>NET CHANGE IN FUND BALANCES</b>	28,821	-	(5,000)
Fund Balance - Beginning	479,553	-	5,000
Fund Balance - Ending	\$ 508,374	\$ -	\$ -

See accompanying note to supplementary information.

<b>Deferred Maintenance Fund</b>	<b>Capital Facilities Fund</b>	<b>Capital Project Component Unit Fund</b>	<b>Non-Major Governmental Funds</b>
\$ 300,000	\$ -	\$ -	\$ 300,000
-	-	-	1,659,332
-	-	-	1,039,046
7,600	2,982,207	555,784	4,114,145
<u>307,600</u>	<u>2,982,207</u>	<u>555,784</u>	<u>7,112,523</u>
-	-	-	349,125
-	-	-	75,200
-	-	-	309,248
-	-	-	2,809,226
-	-	-	116,701
-	-	-	180,342
36,916	8,236	2,690	56,785
280,663	1,155,826	147,620	1,584,109
<u>317,579</u>	<u>1,164,062</u>	<u>150,310</u>	<u>5,480,736</u>
<u>(9,979)</u>	<u>1,818,145</u>	<u>405,474</u>	<u>1,631,787</u>
-	-	-	605,674
-	(82,319)	-	(82,319)
-	(82,319)	-	523,355
(9,979)	1,735,826	405,474	2,155,142
522,843	10,644,915	419,677	12,071,988
<u>\$ 512,864</u>	<u>\$ 12,380,741</u>	<u>\$ 825,151</u>	<u>\$ 14,227,130</u>

**MORGAN HILL UNIFIED SCHOOL DISTRICT**

**NOTE TO SUPPLEMENTARY INFORMATION  
JUNE 30, 2019**

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**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 Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The District has not elected to use the ten percent de minimis cost rate as covered in Section 200.414 Indirect (F&A) costs of the Uniform Guidance.

	<u>CFDA Number</u>	<u>Amount</u>
Description		
Total Federal Revenues Statement of Revenues, Expenditures and Changes in Fund Balances:		\$ 6,354,651
Build America Bonds interest subsidy is excluded from the provisions of Uniform Guidance, therefore, is not presented by the District on the Schedule of Expenditures of Federal Awards.	Not applicable	<u>(768,132)</u>
Total Schedule of Expenditures of Federal Awards		<u>\$ 5,586,519</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. The District has met its target funding. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *Education Code* Sections 46200 through 46206.

Districts must maintain their instructional minutes at the 1986-1987 requirement, 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.



# **MORGAN HILL UNIFIED SCHOOL DISTRICT**

## **NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2019**

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### **Schedule of Financial Trends and Analysis**

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

### **Schedule of Charter Schools**

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

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

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

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***INDEPENDENT AUDITOR'S REPORTS***

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

Governing Board  
Morgan Hill Unified School District  
Morgan Hill, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Morgan Hill Unified School District (the District) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Morgan Hill Unified School District's basic financial statements, and have issued our report thereon dated December 12, 2019.

**Internal Control over Financial Reporting**

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

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

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

## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Palo Alto, California  
December 12, 2019



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

Governing Board  
Morgan Hill Unified School District  
Morgan Hill, California

**Report on Compliance for Each Major Federal Program**

We have audited Morgan Hill Unified School District's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Morgan Hill Unified School District's major Federal programs for the year ended June 30, 2019. The District's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

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

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

### ***Opinion on Each Major Federal Program***

In our opinion, Morgan Hill Unified School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2019.

### **Report on Internal Control over Compliance**

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

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

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

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



Palo Alto, California  
December 12, 2019



## INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board  
Morgan Hill Unified School District  
Morgan Hill, California

### **Report on State Compliance**

We have audited Morgan Hill Unified School District's (the District) compliance with the types of compliance requirements as identified in the *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of the Morgan Hill Unified School District's State government programs as noted below for the year ended June 30, 2019.

### ***Management's Responsibility***

Management is responsible for compliance with the requirements of State laws, regulations, and the terms and conditions of its State awards applicable to its State programs.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance of each of the Morgan Hill Unified School District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2018-2019 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about Morgan Hill Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of Morgan Hill Unified School District's compliance with those requirements.

### ***Unmodified Opinion***

In our opinion, Morgan Hill Unified School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2019.

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



The District's independent study ADA is below testing threshold; therefore, we did not perform procedures related to the independent study program.

The District did not offer an Early Retirement Incentive program, Juvenile Court schools, Middle or Early College High Schools program, Apprenticeship Related and Supplemental Instruction, District of Choice, Before School Education and Safety program, and Independent Study-Course Based program during the current year; therefore, we did not perform procedures related to these programs.

The Charter School is independent of the District; therefore, we did not perform any procedures related to charter schools.

*Eide Sully LLP*

Palo Alto, California  
December 12, 2019

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***SCHEDULE OF FINDINGS AND QUESTIONED COSTS***

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**MORGAN HILL UNIFIED SCHOOL DISTRICT**

**SUMMARY OF AUDITOR'S RESULTS  
FOR THE YEAR ENDED JUNE 30, 2019**

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**FINANCIAL STATEMENTS**

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

**FEDERAL AWARDS**

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

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>84.010</u>	<u>Title I, Part A</u>
<u>10.553 and 10.555</u>	<u>Child Nutrition Clusters</u>

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

**STATE AWARDS**

Type of auditor's report issued on compliance for all programs:  
Unmodified for all programs

**MORGAN HILL UNIFIED SCHOOL DISTRICT**

**FINANCIAL STATEMENT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2019**

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None reported.

**MORGAN HILL UNIFIED SCHOOL DISTRICT**

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2019**

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None reported.

**MORGAN HILL UNIFIED SCHOOL DISTRICT**

**STATE AWARDS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2019**

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None reported.

**MORGAN HILL UNIFIED SCHOOL DISTRICT**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2019**

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