

**MORGAN HILL UNIFIED  
SCHOOL DISTRICT**

**ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED  
JUNE 30, 2015**



# MORGAN HILL UNIFIED SCHOOL DISTRICT

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JUNE 30, 2015

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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, 2015, 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 *2014-15 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, 2015, 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.

### ***Emphasis of Matter - Change in Accounting Principles***

As discussed in Note 1 to the financial statements, in 2015, the District adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contribution Made Subsequent to The Measurement Date*. Our opinion is not modified with respect to this matter.

### ***Other Matters***

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

Accounting principles generally accepted in the United States of America require that required supplementary information, such as management's discussion and analysis, budgetary comparison, other post-employment benefit information, the District's proportionate share of the net pension liability and the District's pension contribution, 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 accompanying supplementary information such as the combining and individual nonmajor fund financial statements and Schedule of Expenditures of Federal Awards, as required by the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the other supplementary information as listed on the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2015, on our consideration of the Morgan Hill Unified School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 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 Morgan Hill Unified School District's internal control over financial reporting and compliance.

*Wassinek, Trine, Day & Co., LLP*

Palo Alto, California  
December 14, 2015

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# **MORGAN HILL UNIFIED SCHOOL DISTRICT**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015**

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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, 2015. 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 which resulted in negotiations being settled by June 2014 for 2014-15.
- With the Common Core State Standards grant funds in its second year, the District continued to provide professional development and Teachers On Special Assignment (TOSA's) to support classroom instruction in common core.
- Using bond funds, the District completed a comprehensive technology infrastructure and began implementing one-to-one devices at secondary sites. The District is in the planning phase of building three new multi-purpose rooms and the reconstruction of the Britton Middle School campus.

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

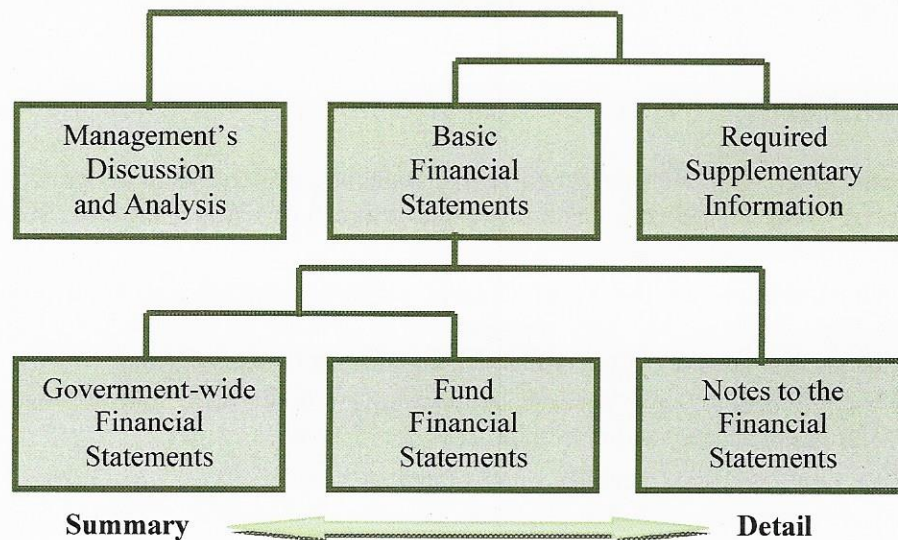
JUNE 30, 2015

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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 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, 2015

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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 2014-2015?"

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, 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, 2015

### FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

#### The School District as a Whole

For the period ending June 30, 2015, the District's net position decreased to \$116.2 million, or a 30.41% decrease. The decrease was the result of the District implementing the provisions of GASB 68, which required the District to recognize its proportionate share of the unfunded pension liability. 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 and 16 in the Annual Financial Report). The unrestricted net position would have been \$23.9 million before the GASB 68 adjustment. However, after the adjustment of \$59.1 million, the unrestricted net position is -\$35.2 million (see Table 1).

(Table 1)  
Comparative Condensed Statement of Net Position

	Governmental Activities	
	2015	2014
<b>Assets</b>		
Deposits and investments	\$ 79,231,490	\$ 97,585,654
Receivables	3,977,626	6,018,263
Prepaid expenses	15,807	10,622
Stores inventory	1,826	24,926
Capital assets	222,311,047	204,237,353
Total Assets	<u>305,537,796</u>	<u>307,876,818</u>
<b>Deferred Outflow of Resources</b>	<u>5,746,362</u>	<u>2,025,859</u>
<b>Liabilities</b>		
Accounts payable and other current liabilities	5,926,883	7,869,790
Unearned revenue	681,531	563,338
Long-term liabilities other than pensions	125,242,841	134,554,285
Aggregate net pension liability	49,767,876	-
Total Liabilities	<u>181,619,131</u>	<u>142,987,413</u>
<b>Deferred Outflow of Resources</b>	<u>13,507,601</u>	<u>-</u>
<b>Net position</b>		
Net investment in capital assets	128,008,293	118,684,824
Restricted	23,384,178	25,783,331
Unrestricted	(35,235,045)	22,447,109
Total Net Position	<u>\$ 116,157,426</u>	<u>\$ 166,915,264</u>

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**JUNE 30, 2015**

The District's net position increased by \$8,935,118 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 5% of total costs. The remaining 21% 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	
	2015	2014
<b>Revenues</b>		
Program revenues	\$ 15,524,648	\$ 15,782,533
General revenues:		
Taxes levied for general purposes	49,118,548	44,873,192
Taxes levied for debt service	15,660,162	15,061,932
Taxes levied for other specific purposes	1,392,107	1,119,320
Federal and State aid not restricted to specific purposes	13,660,034	12,131,296
Interest and investment earnings	265,562	272,760
Miscellaneous	5,396,781	5,134,185
<b>Total Revenues</b>	<b>101,017,842</b>	<b>94,375,218</b>
<b>Expenses</b>		
Instruction	49,527,617	44,592,537
Instruction related services	9,423,428	7,958,422
Pupil support services	9,490,907	8,984,169
General administration	4,888,448	4,152,052
Plant services	7,527,247	8,463,224
Other	11,225,077	11,861,215
<b>Total Expenses</b>	<b>92,082,724</b>	<b>86,011,619</b>
<b>Increase In Net Position</b>	<b>\$ 8,935,118</b>	<b>\$ 8,363,599</b>

# MORGAN HILL UNIFIED SCHOOL DISTRICT

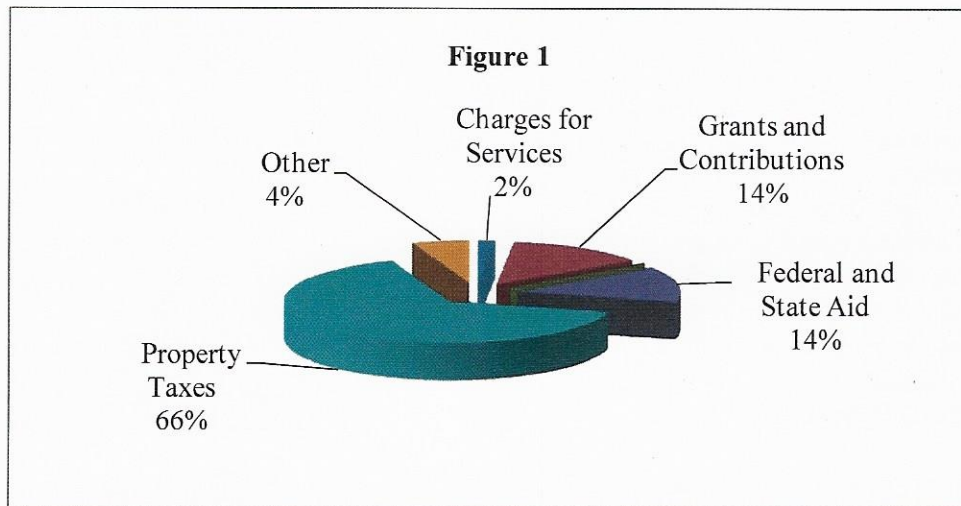
## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

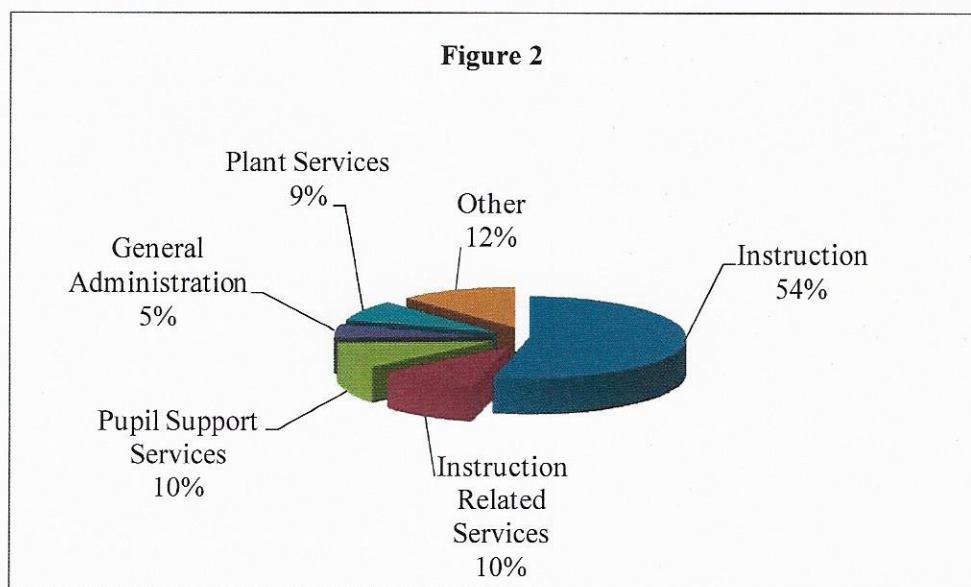
### Governmental Activities

As reported in the Statement of Activities, the cost of all the District's governmental activities this year was \$92.1 million. The amount that our local taxpayers financed for these activities through property taxes was \$66.1 million or 66% of all revenues. Federal and State aid not restricted to specific purposes totaled \$13.8 million. (See Figure 1).

**Revenues for the 2014-2015 Fiscal Year**



**Expenses for the 2014-2015 Fiscal Year**



# MORGAN HILL UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

### 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 \$77.7 million, a decrease of \$18.6 million from the previous fiscal year. This decrease is primarily the result of significant bond expenditures offset by increases 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 \$23.1 million excluding the Special Reserve Fund for Non Capital and the Retiree Benefit Special Reserve Fund. The State recommends an ending reserve for economic uncertainties of 3%. The District's ending reserve for economic uncertainty was 21.3%.

### CAPITAL ASSET AND DEBT ADMINISTRATION

#### Capital Assets

By the end of the 2014-2015 fiscal year, the District had investments of \$294.2 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 \$222.3 million at June 30, 2015 which is an increase of \$18.1 million from the previous year.

(Table 3)  
Comparative Schedule of Capital Assets  
(net of depreciation)  
June 30, 2015 and 2014

	2015	2014	Difference	Percentage Change
Land	\$ 7,467,149	\$ 7,467,149	\$ -	0.0%
Buildings and improvements	175,604,508	177,476,725	(1,872,217)	-1.1%
Machinery and equipment	1,993,823	2,103,200	(109,377)	-5.2%
Work in progress	37,245,567	17,190,279	20,055,288	116.7%
<b>Totals</b>	<b>\$ 222,311,047</b>	<b>\$ 204,237,353</b>	<b>\$ 18,073,694</b>	<b>8.8%</b>

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

### Long Term Obligation

As of June 30, 2015, the District had \$175.0 million in long-term obligations outstanding. The increase was the result of the District implementing the provisions of GASB 68, which required the District to recognize its proportionate share of the unfunded pension liability. 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 Obligation  
June 30, 2015 and 2014

	2015	2014	Difference	Percentage Change
General obligation bonds				
(Including premiums and accretions)	\$ 104,698,318	\$ 115,687,801	\$ (10,989,483)	-9.5%
Certificates of participation	13,338,927	13,325,087	13,840	0.1%
Compensated absences	279,982	262,672	17,310	6.6%
Net OPEB obligation	6,925,614	5,278,725	1,646,889	31.2%
Net pension liability	49,767,876	-	49,767,876	100.0%
<b>Totals</b>	<b>\$ 175,010,717</b>	<b>\$ 134,554,285</b>	<b>\$ 40,456,432</b>	<b>30.1%</b>

### 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 fifth year in a row. The schedule below depicts actual second period ADA from 2008-2009 to 2014-2015.

ADA P-2	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015
Elementary	5,939.36	5,858.56	5,809.00	5,688.00	5,670.00	5,655.00	5,566.53
High School	2,812.69	2,821.06	2,733.00	2,686.00	2,651.00	2,516.00	2,552.50
Total ADA	8,752.05	8,679.62	8,542.00	8,374.00	8,321.00	8,208.00	8,119.03
ADA Change	157.49	(72.43)	(137.62)	(168.00)	(53.00)	(113.00)	(88.97)
% Change	1.83%	-0.83%	-1.59%	-1.97%	-0.63%	-1.36%	-1.08%

# **MORGAN HILL UNIFIED SCHOOL DISTRICT**

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

**JUNE 30, 2015**

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### **FACTORS BEARING ON THE DISTRICT'S FUTURE**

Under the leadership of Superintendent Steve Betando, Morgan Hill Unified School District has focused 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 Morgan Hill Unified School District adopted three robust goals:

- **COLLEGE AND CAREER READINESS:** With an equity lens, Morgan Hill Unified School District will provide vigorous curriculum and instruction that includes critical thinking skills, academic and digital literacy in all subject areas to ensure post-secondary success 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 career ready.

The Morgan Hill Unified School District has five elementary schools in Program Improvement. In 2012-13, Jackson became the District's first math and music academy. Due to the success of the academy program and to expand choices for families, the District is opened two new academies in 2014-15: Walsh Elementary as a Science, Technology, Engineering, Arts, and Mathematics (STEAM Academy) and San Martin-Gwinn as an Environmental 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 2008-09.

Stabilization of the State's economic health and the new Local Control Funding Formula are both beneficial to the District's finances; however there continues to be concern about the ability of the State to fully fund the new funding mechanism within the eight year implementation period. Even if fully funding is achieved within the eight year implementation period, California's funding per student ranks among the lowest in the United States.

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.

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## STATEMENT OF NET POSITION JUNE 30, 2015

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Deposits and investments	\$ 79,231,490
Receivables	3,977,626
Prepaid expenses	15,807
Stores inventories	1,826
Capital assets not depreciated	44,712,716
Capital assets, net of accumulated depreciation	177,598,331
<b>Total Assets</b>	<u>305,537,796</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred amount on refunding	1,620,687
Current year pension contribution	4,125,675
<b>Total Deferred Outflows of Resources</b>	<u>5,746,362</u>
<b>LIABILITIES</b>	
Accounts payable	4,747,856
Interest payable	1,179,027
Unearned revenue	681,531
Current portion of long-term obligations other than pensions	12,779,139
Noncurrent portion of long-term obligations other than pensions	112,463,702
Aggregate net pension liability	49,767,876
<b>Total Liabilities</b>	<u>181,619,131</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Difference between actual and expected rate of investment return	13,507,601
<b>Total Deferred Inflows of Resources</b>	<u>13,507,601</u>
<b>NET POSITION</b>	
Net investment in capital assets	128,008,293
Restricted for:	
Educational programs	2,357,969
Child nutrition program	883,686
Debt service	12,837,098
Capital projects	7,305,425
Unrestricted	(35,235,045)
<b>Total Net Position</b>	<u>\$ 116,157,426</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, 2015

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	\$ 49,527,617	\$ 21,919	\$ 7,703,736	\$ (41,801,962)
Instruction-related activities:				
Supervision of instruction	2,290,210	-	586,730	(1,703,480)
Instructional library and technology	257,103	-	15,978	(241,125)
School site administration	6,876,115	149	317,996	(6,557,970)
Pupil services:				
Home-to-school transportation	2,881,536	-	15,061	(2,866,475)
Food services	2,762,863	478,314	2,008,710	(275,839)
All other pupil services	3,846,508	47	963,052	(2,883,409)
General administration:				
Data processing	1,135,994	-	11,387	(1,124,607)
All other general administration	3,752,454	27,223	580,003	(3,145,228)
Plant services	7,527,247	4,122	35,051	(7,488,074)
Ancillary services	491,095	-	-	(491,095)
Community services	5,003	-	-	(5,003)
Interest on long-term obligations	6,862,638	-	-	(6,862,638)
Other outgo	3,866,341	1,147,957	1,607,213	(1,111,171)
<b>Total Governmental-Type Activities</b>	<b>\$ 92,082,724</b>	<b>\$ 1,679,731</b>	<b>\$ 13,844,917</b>	<b>(76,558,076)</b>
<b>General revenues and subventions:</b>				
Property taxes, levied for general purposes				49,118,548
Property taxes, levied for debt service				15,660,162
Taxes levied for other specific purposes				1,392,107
Federal and State aid not restricted to specific purposes				13,660,034
Interest and investment earnings				265,562
Intergovernmental revenues				163,705
Miscellaneous				5,233,076
<b>Subtotal, General Revenues</b>				<b>85,493,194</b>
<b>Change in Net Position</b>				<b>8,935,118</b>
Net Position - Beginning				166,915,264
Restatement of beginning net position				(59,692,956)
Net Position - Ending				<b>\$ 116,157,426</b>

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

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## GOVERNMENTAL FUNDS BALANCE SHEET JUNE 30, 2015

	General Fund	Building Fund	Bond Interest and Redemption Fund
<b>ASSETS</b>			
Deposits and investments	\$ 27,537,965	\$ 27,673,346	\$ 14,005,703
Receivables	3,364,172	93,027	10,422
Due from other funds	98,062	230,531	-
Prepaid expenditures	15,807	-	-
Stores inventories	-	-	-
<b>Total Assets</b>	<b>\$ 31,016,006</b>	<b>\$ 27,996,904</b>	<b>\$ 14,016,125</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 3,102,968	\$ 1,513,103	\$ -
Due to other funds	980,217	-	-
Unearned revenue	681,531	-	-
<b>Total Liabilities</b>	<b>4,764,716</b>	<b>1,513,103</b>	<b>-</b>
<b>Fund Balances:</b>			
Nonspendable	30,307	-	-
Restricted	2,321,593	20,563,577	14,016,125
Committed	-	-	-
Assigned	7,651,124	5,920,224	-
Unassigned	16,248,266	-	-
<b>Total Fund Balances</b>	<b>26,251,290</b>	<b>26,483,801</b>	<b>14,016,125</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 31,016,006</b>	<b>\$ 27,996,904</b>	<b>\$ 14,016,125</b>

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>
\$ 10,014,476	\$ 79,231,490
510,005	3,977,626
750,000	1,078,593
-	15,807
1,826	1,826
<u>\$ 11,276,307</u>	<u>\$ 84,305,342</u>

\$ 131,785	\$ 4,747,856
98,376	1,078,593
-	681,531
<u>230,161</u>	<u>6,507,980</u>

7,826	38,133
9,772,888	46,674,183
1,265,432	1,265,432
-	13,571,348
-	16,248,266
<u>11,046,146</u>	<u>77,797,362</u>
<u>\$ 11,276,307</u>	<u>\$ 84,305,342</u>

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION JUNE 30, 2015

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

<b>Total Fund Balance - Governmental Funds</b>		<b>\$ 77,797,362</b>
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	\$ 294,191,013	
Accumulated depreciation is	<u>(71,879,966)</u>	
Net Capital Assets		222,311,047
Expenditures relating to contributions made to pension plans are expensed when paid, but are not recognized on the accrual basis in the governmental funds. However, in the government-wide financial statements, as required by GASB 68, they are deferred and expensed in the subsequent year.		
		4,125,675
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.		
		1,620,687
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.		
		(1,179,027)
The difference between projected and actual pension plan investment earnings are not recognized on the modified accrual basis, but are recognized on the accrual basis as an adjustment to pension expense.		
		(13,507,601)
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	104,698,318	
COP payable and discounts	13,338,927	
Compensated absences (vacations)	279,982	
Net OPEB obligation	6,925,614	
Net pension liability	<u>49,767,876</u>	
Total Long-Term Obligations		<u>(175,010,717)</u>
<b>Total Net Position - Governmental Activities</b>		<b><u>\$ 116,157,426</u></b>

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, 2015

	General Fund	Building Fund	Bond Interest and Redemption Fund
<b>REVENUES</b>			
Local control funding formula	\$ 59,144,893	\$ -	\$ -
Federal sources	3,727,900	691,056	-
Other state sources	6,225,618	-	99,307
Other local sources	6,730,071	1,201,824	15,583,268
<b>Total Revenues</b>	<b>75,828,482</b>	<b>1,892,880</b>	<b>15,682,575</b>
<b>EXPENDITURES</b>			
Current			
Instruction	44,393,392	-	-
Instruction-related activities:			
Supervision of instruction	2,066,426	-	-
Instructional library, media and technology	233,629	-	-
School site administration	5,944,728	-	-
Pupil services:			
Home-to-school transportation	2,586,394	-	-
Food services	-	-	-
All other pupil services	3,476,266	-	-
General administration:			
Data processing	1,038,517	-	-
All other general administration	3,229,380	-	-
Plant services	6,574,893	25,766	-
Facility acquisition and construction	475,952	20,994,478	-
Ancillary services	455,479	-	-
Community services	4,656	-	-
Other outgo	3,866,341	-	-
Debt service			
Principal	-	-	11,985,000
Interest and other	-	958,855	3,639,575
<b>Total Expenditures</b>	<b>74,346,053</b>	<b>21,979,099</b>	<b>15,624,575</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>1,482,429</b>	<b>(20,086,219)</b>	<b>58,000</b>
<b>Other Financing Sources (Uses):</b>			
Transfers in	84,135	416,000	-
Transfers out	(1,826,072)	-	-
<b>Net Financing Sources (Uses)</b>	<b>(1,741,937)</b>	<b>416,000</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(259,508)</b>	<b>(19,670,219)</b>	<b>58,000</b>
<b>Fund Balance - Beginning</b>	<b>26,510,798</b>	<b>46,154,020</b>	<b>13,958,125</b>
<b>Fund Balance - Ending</b>	<b>\$ 26,251,290</b>	<b>\$ 26,483,801</b>	<b>\$ 14,016,125</b>

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

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Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ 59,144,893
2,038,218	6,457,174
432,080	6,757,005
3,921,481	27,436,644
<u>6,391,779</u>	<u>99,795,716</u>
508,602	44,901,994
-	2,066,426
-	233,629
262,576	6,207,304
-	2,586,394
2,502,657	2,502,657
-	3,476,266
-	1,038,517
181,554	3,410,934
405,757	7,006,416
1,939,743	23,410,173
-	455,479
-	4,656
-	3,866,341
-	11,985,000
-	4,598,430
<u>5,800,889</u>	<u>117,750,616</u>
<u>590,890</u>	<u>(17,954,900)</u>
1,410,072	1,910,207
(84,135)	(1,910,207)
<u>1,325,937</u>	<u>-</u>
1,916,827	(17,954,900)
9,129,319	95,752,262
<u>\$ 11,046,146</u>	<u>\$ 77,797,362</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, 2015

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

**Total Net Change in Fund Balances - Governmental Funds** **\$ (17,954,900)**

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	\$ 23,573,530	
Depreciation expense	<u>(5,499,836)</u>	
Net Expense Adjustment		18,073,694

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.

(17,310)

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.

(113,248)

Accreted interest on capital appreciation bonds does not require the use of current financial resources, and thus is not recorded in the governmental funds. In the Statement of Activities, however, accreted interest expense is recognized in the government-wide statements as an addition to long-term liabilities.

(1,868,496)

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, 2015**

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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 defeasance cost of general obligation bonds	(405,172)	
Amortization of premium of general obligation bonds	872,979	
Amortization of discount of certificates of participation	<u>(13,840)</u>	
Net amortization		453,967

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.

11,985,000

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.

23,300

Payments of the retiree benefits are recorded as an expenditure in the governmental funds. However, the difference between the excess of the annual required contributions and the actual benefit payments made, is recorded as an additional expense in the statement of activities. The actual amount of the contribution was less than the annual required contributions.

(1,646,889)

**Change in Net Position of Governmental Activities**

**\$ 8,935,118**

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

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## FIDUCIARY FUND

### STATEMENT OF NET POSITION

JUNE 30, 2015

	<u>Agency Fund</u>
<b>ASSETS</b>	
Deposits and investments	\$ 868,857
<b>Total Assets</b>	<u>\$ 868,857</u>
<b>LIABILITIES</b>	
Due to student groups	\$ 868,857
<b>Total Liabilities</b>	<u>\$ 868,857</u>

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

# **MORGAN HILL UNIFIED SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2015**

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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:

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

---

### 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.

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 expenditures for specified purposes and that compose a substantial portion of the inflows of the fund. Additional resources that are restricted, committed, or assigned to the purpose of the fund may also be reported in the fund.

**Adult Education Fund** The Adult Education Fund is used to account separately for Federal, State, and local revenues for adult education programs and is to be expended for adult education purposes only.

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

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

**Deferred Maintenance Fund** The Deferred Maintenance Fund is used to account separately for State apportionments and the District's contributions for deferred maintenance purposes (*Education Code* Sections 17582-17587) and for items of maintenance approved by the State Allocation Board.

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

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

**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 2006-07.

**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, 2015

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**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 are expected to be collected soon enough thereafter, to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 45 to 60 days of fiscal year-end. 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, 2015**

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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, if measurable, and typically paid within 90 days. 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, 2015 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, 2015**

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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 the unamortized amount on the refunding of general obligation bonds and current year pension contributions.

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 the difference between actual and expected rate of return on investments specific to the net pension liability.

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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### 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.

### 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, 2015, 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.

### 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.

# **MORGAN HILL UNIFIED SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2015**

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### **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.

### **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.

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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### Changes in Accounting Principles

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

The District has implemented the Provisions of this Statement for the year ended June 30, 2015.

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date — An Amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

The District has implemented the Provisions of this Statement for the year ended June 30, 2015.

As the result of implementing GASB Statement No. 68, the District has restated the beginning net position in the government wide Statement of Net Position, effectively decreasing net position as of July 1, 2014, by \$59,036,554. The decrease results from recognizing the net pension liability, net of related deferred outflows of resources.

### New Accounting Pronouncements

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015. Early implementation is encouraged.

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all post-employment benefits with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2016. Early implementation is encouraged.

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

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

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2016. Early implementation is encouraged.

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

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

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. Earlier implementation is permitted.

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

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### NOTE 2 - DEPOSITS AND INVESTMENTS

#### Summary of Deposits and Investments

Deposits and investments as of June 30, 2015, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 79,231,490
Fiduciary funds	868,857
Total Deposits and Investments	<u>\$ 80,100,347</u>

Deposits and investments as of June 30, 2015, consist of the following:

Cash on hand and in banks	\$ 919,657
Cash in revolving	20,500
Investments	79,160,190
Total Deposits and Investments	<u>\$ 80,100,347</u>

#### Policies and Practices

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

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

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

### 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

### 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.

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	\$ 3,972,059	\$ 3,972,059	5/3/2027
Money Market	539,959	539,959	Less than a year
County Pool	74,648,171	74,686,092	469 days
Total	<u>\$ 79,160,189</u>	<u>\$ 79,198,110</u>	

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

### 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	\$ 3,972,059	\$ 3,972,059
Money Market	539,959	539,959
County Pool	74,686,092	74,686,092
Total	<u>\$ 79,198,110</u>	<u>\$ 79,198,110</u>

### Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. The District had no significant exposure with respect to custodial credit risk. On June 30, 2015, District bank balances of \$638,105 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, \$4,512,018 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, 2015

### NOTE 3 - RECEIVABLES

Receivables at June 30, 2015, 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	\$ 1,245,368	\$ -	\$ -	\$ 361,938	\$ 1,607,306
State Government					
Categorical aid	917,023	-	-	102,221	1,019,244
Lottery	753,651	-	-	-	753,651
Local Government					
Interest	45,139	33,558	10,422	12,763	101,882
Other Local Sources	402,991	59,469	-	33,083	495,543
Total	<u>\$ 3,364,172</u>	<u>\$ 93,027</u>	<u>\$ 10,422</u>	<u>\$ 510,005</u>	<u>\$ 3,977,626</u>

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

### NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2015, was as follows:

	Balance July 1, 2014	Additions	Deductions	Balance June 30, 2015
<b>Governmental Activities</b>				
Capital Assets Not Being Depreciated:				
Land	\$ 7,467,149	\$ -	\$ -	\$ 7,467,149
Construction in progress	17,190,279	20,056,980	1,692	37,245,567
Total Capital Assets Not Being Depreciated	24,657,428	20,056,980	1,692	44,712,716
Capital Assets Being Depreciated:				
Buildings and improvements	237,918,712	3,037,371	-	240,956,083
Furniture and equipment	8,041,343	480,871	-	8,522,214
Total Capital Assets Being Depreciated	245,960,055	3,518,242	-	249,478,297
Total Capital Assets	270,617,483	23,575,222	1,692	294,191,013
Less Accumulated Depreciation:				
Buildings and improvements	60,441,987	4,909,588	-	65,351,575
Furniture and equipment	5,938,143	590,248	-	6,528,391
Total Accumulated Depreciation	66,380,130	5,499,836	-	71,879,966
Governmental Activities Capital Assets, Net	\$ 204,237,353	\$ 18,075,386	\$ 1,692	\$ 222,311,047

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

<b>Governmental Activities</b>	
Instruction	\$ 3,342,148
Supervision of instruction	153,808
Instructional library, media, and technology	17,389
School site administration	462,023
Home-to-school transportation	192,511
Food services	186,278
All other pupil services	258,746
Ancillary services	33,902
Community services	347
Data processing	253,883
All other general administration	77,299
Plant services	521,502
Total Depreciation Expense All Activities	\$ 5,499,836

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

### NOTE 5 - INTERFUND TRANSACTIONS

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

Due To	Due From			Total
	General Fund	Building Fund	Non-Major Governmental	
General Fund	\$ -	\$ 230,217	\$ 750,000	\$ 980,217
Non-Major Governmental Funds	98,062	314	-	98,376
Total	<u>\$ 98,062</u>	<u>\$ 230,531</u>	<u>\$ 750,000</u>	<u>\$ 1,078,593</u>

#### Operating Transfers

Interfund transfers for the year ended June 30, 2015, consisted of the following:

Transfer Out	Transfer In			Total
	General Fund	Building Fund	Non-Major Governmental	
General Fund	\$ -	\$ 416,000	\$ 1,410,072	\$ 1,826,072
Non-Major Governmental Funds	84,135	-	-	84,135
Total	<u>\$ 84,135</u>	<u>\$ 416,000</u>	<u>\$ 1,410,072</u>	<u>\$ 1,910,207</u>

General Fund transferred to Building Fund for solar panel energy savings.	\$ 416,000
General Fund transferred to Adult Education Fund for program funds received directly in General Fund through LCFF.	349,072
Capital Facilities Fund transferred to General Fund for revenue collected from Capital Facilities Fund that should have been recorded in General Fund.	84,135
General Fund transferred to Deferred Maintenance Fund for Deferred Maintenance funds was consolidated into the LCFF. Amount transferred was to continue use of the funds for emergency projects that are still eligible under Deferred Maintenance programs - such as new flooring projects, roofing, painting, and hardware replacement.	1,061,000
Total interfund transfers	<u>\$ 1,910,207</u>

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

### NOTE 6 - DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources is a consumption of net position by the District that is applicable to a future reporting period. The \$1,620,687 balance of the deferred amounts on refunding at June 30, 2015 will be recognized as an expense and as a decrease in net position over the remaining life of related bonds. The District's current year pension contribution of \$4,125,675 was made after the pension liability measurement date, June 30, 2014. Therefore, the recognition of current year payment is deferred and will be recognized as a pension expense in fiscal year 2015-16. (see Note 13 for more information on pension expense)

Deferred outflow of resources at June 30, 2015 consisted of the following:

	Balance July 1, 2014	Additions	Deductions	Balance June 30, 2015
Deferred amounts on refunding	\$ 2,025,859	\$ -	\$ 405,172	\$ 1,620,687
Current year District's pension contribution	3,585,138	4,125,675	3,585,138	4,125,675
Total	<u>\$ 5,610,997</u>	<u>\$ 4,125,675</u>	<u>\$ 3,990,310</u>	<u>\$ 5,746,362</u>

### NOTE 7 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2015, consisted of the following:

	General Fund	Building Fund	Non-Major Governmental Funds	Total
Vendor payables	\$ 1,102,596	\$ 1,512,571	\$ 51,628	\$ 2,666,795
Salaries and benefits	938,736	532	68,437	1,007,705
Total	<u>\$ 3,102,968</u>	<u>\$ 1,513,103</u>	<u>\$ 131,785</u>	<u>\$ 4,747,856</u>

### NOTE 8 - UNEARNED REVENUE

Unearned revenue at June 30, 2015, consists of the following:

	General Fund
Federal financial assistance	\$ 23,752
Other local	657,779
Total	<u>\$ 681,531</u>

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

### NOTE 9 - LONG-TERM OBLIGATIONS

#### Summary

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

	Balance July 1, 2014	Additions	Deductions	Balance June 30, 2015	Due in One Year
GOBs	\$ 98,059,040	\$ -	\$ 7,731,226	\$ 90,327,814	\$ 7,063,802
Accretions on GOBs	11,723,056	1,868,496	4,253,774	9,337,778	4,856,198
Premium on GOBs	5,905,705	-	872,979	5,032,726	872,979
Sub-Total	115,687,801	1,868,496	12,857,979	104,698,318	12,792,979
COPs	13,505,000	-	-	13,505,000	-
Discount on COPS	(179,913)	-	(13,840)	(166,073)	(13,840)
Net Accumulated vacation	262,672	17,310	-	279,982	-
Net OPEB obligations	5,278,725	2,510,366	863,477	6,925,614	-
Net pension liability	62,621,692	-	12,853,816	49,767,876	-
Total	<u>\$ 197,175,977</u>	<u>\$ 4,396,172</u>	<u>\$ 26,561,432</u>	<u>\$ 175,010,717</u>	<u>\$ 12,779,139</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, other post-employment benefits (OPEB), and pension liability 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, 2014	Issued / Accreted Interest	Redeemed	Bonds Outstanding June 30, 2015
2006	2020	3.50%-4.24%	\$ 68,180,000	\$ 34,285,000	\$ -	\$ 7,731,226	\$ 26,553,774
2006	2016	4.25%-4.42%	8,774,040	20,497,096	1,868,496	4,253,774	18,111,818
2012	2042	2.00%-3.25%	55,000,000	55,000,000	-	-	55,000,000
	Sub-Total		<u>\$ 131,954,040</u>	<u>\$ 109,782,096</u>	<u>\$ 1,868,496</u>	<u>\$ 11,985,000</u>	<u>99,665,592</u>
Unamortized premium on GO bonds							5,032,726
Total							<u>\$ 104,698,318</u>

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

### Debt Service Requirements to Maturity

The bonds mature through 2043 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2016	\$ 7,063,802	\$ 8,405,973	\$ 15,469,775
2017	2,779,012	8,979,363	11,758,375
2018	8,875,000	3,287,750	12,162,750
2019	9,900,000	2,821,575	12,721,575
2020	11,010,000	2,315,550	13,325,550
2021-2025	7,825,000	8,892,475	16,717,475
2026-2030	5,815,000	7,780,450	13,595,450
2031-2035	9,750,000	6,383,544	16,133,544
2036-2040	15,000,000	4,061,000	19,061,000
2041-2043	12,310,000	763,400	13,073,400
Total	90,327,814	\$ 53,691,080	\$ 144,018,894
Accretion to Date	9,337,778		
	<u>\$ 99,665,592</u>		

### 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, 2015, the principal balance outstanding was \$13,505,000. The certificates mature through 2027 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2016	\$ -	\$ 958,855	\$ 958,855
2017	-	958,855	958,855
2018	-	958,855	958,855
2019	-	958,855	958,855
2020	-	958,855	958,855
2021-2025	-	4,794,275	4,794,275
2026-2027	13,505,000	1,917,710	15,422,710
Total	<u>\$ 13,505,000</u>	<u>\$ 11,506,260</u>	<u>\$ 25,011,260</u>

### Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2015 amounted to \$279,982.

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

### NOTE 10 - 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
Stores inventories	-	-	-	1,826	1,826
Prepaid expenditures	15,807	-	-	-	15,807
Total Nonspendable	30,307	-	-	7,826	38,133
<b>Restricted</b>					
Legally restricted programs	2,321,593	-	-	36,376	2,357,969
Food program	-	-	-	880,860	880,860
Capital projects	-	20,563,577	-	8,855,652	29,419,229
Debt services	-	-	14,016,125	-	14,016,125
Total Restricted	2,321,593	20,563,577	14,016,125	9,772,888	46,674,183
<b>Committed</b>					
Adult education program	-	-	-	236,478	236,478
Deferred maintenance program	-	-	-	1,028,954	1,028,954
Total Committed	-	-	-	1,265,432	1,265,432
<b>Assigned</b>					
Special reserve-non capital	4,516,535	-	-	-	4,516,535
Retiree benefits	564,198	-	-	-	564,198
Capital projects	2,570,391	5,920,224	-	-	8,490,615
Total Assigned	7,651,124	5,920,224	-	-	13,571,348
<b>Unassigned</b>					
Reserve for economic uncertainties	2,307,856	-	-	-	2,307,856
Remaining unassigned	13,940,410	-	-	-	13,940,410
Total Unassigned	16,248,266	-	-	-	16,248,266
<b>Total</b>	<b>\$ 26,251,290</b>	<b>\$ 26,483,801</b>	<b>\$ 14,016,125</b>	<b>\$ 11,046,146</b>	<b>\$ 77,797,362</b>

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

### NOTE 11 – POST-EMPLOYMENT HEALTH CARE PLAN AND OTHER POST-EMPLOYMENT BENEFITS (OPEB) OBLIGATION

#### Plan Description

The Post-employment Benefit Plan (the "Plan") is a single-employer defined benefit healthcare plan administered by the Morgan Hill Unified School District. The Plan provides medical and dental insurance benefits to eligible retirees. Membership of the Plan consists of 315 retirees currently receiving benefits and 789 active plan members. Board designated amount of the Plan is presented in these financial statements as the Retiree Benefits Special Reserve Fund.

#### Contribution Information

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 2014-2015, the District contributed \$863,477 to the plan, all of which was used for current premiums (approximately 7 percent of current year's annual required contribution). Plan members are paid a monthly administrative charge amount equal to \$115.90 and increases based on Assembly Bill 2544 equal to an amount not less than the number of years the agency has been in the PEMHCA program, multiplied by 5 percent of the current monthly employer contribution for employees, until the time that the employer contribution for annuitants equals the employer contribution paid for employees. Special rules for employees who retire after age 55 with at least 10 years of service during the 2006-07 year: retired employees receive an allotment of \$9,000 per year (\$750 per month) for ten years.

#### Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	\$ 2,549,188
Interest on net OPEB obligation	208,916
Adjustment to annual required contribution	(247,738)
Annual OPEB cost (expense)	<u>2,510,366</u>
Contributions made	<u>(863,477)</u>
Increase in net OPEB obligation	1,646,889
Net OPEB obligation, beginning of year	5,278,725
Net OPEB obligation, end of year	<u><u>\$ 6,925,614</u></u>

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

### Trend Information

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

Year Ended June 30,	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Obligation
2015	\$ 2,510,366	\$ 863,477	34%	\$ 6,925,614
2014	2,601,921	581,024	22%	5,278,725
2013	2,447,916	668,535	27%	3,257,828

### Funded Status and Funding Progress

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
July 1, 2013	\$ -	\$ 20,977,123	\$ 20,977,123	0%	\$ 41,678,437	50.33%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, investment returns, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

### Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2013, actuarial valuation, the Frozen Entry Age method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses), based on the District's investment portfolio in the past years an inflation rate of 2.75% and health care costs increase of 4%. The UAAL is being amortized at a level dollar method. The remaining amortization period at July 1, 2013, was 25 years on a close basis. At June 30, 2015, the District's General Fund has assigned net position in the amount of \$564,198, which consisted of \$563,425 on deposit with the county treasurer and receivables in the amount of \$773.

# **MORGAN HILL UNIFIED SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2015**

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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 \$5 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, 2015, 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 2015, 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, 2015

### 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).

The District implemented GASB Statements No. 68 and No. 71 for the fiscal year ended June 30, 2015. As a result, the District reported its proportionate share of the net pension liabilities, pension expense and deferred inflow of resources for each of the above plans and a deferred outflow of resources for each of the above plans as follows:

Pension Plan	Proportionate Share of Net Pension Liability	Deferred Outflow of Resources	Proportionate Share of Deferred Inflow of Resources	Proportionate Share of Pension Expense
CalSTRS	\$ 39,151,313	\$ 2,909,037	\$ 9,640,936	\$ 3,380,023
CalPERS	10,616,563	1,216,638	3,866,665	847,608
Total	<u>\$ 49,767,876</u>	<u>\$ 4,125,675</u>	<u>\$ 13,507,601</u>	<u>\$ 4,227,631</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, 2013, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at:  
<http://www.calstrs.com/member-publications>.

##### 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, 2015

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, 2015, are summarized as follows:

	STRP Defined Benefit Program	
	On or before December 31, 2012	On or after January 1, 2013
Hire date		
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	8.15%	8.15%
Required employer contribution rate	8.88%	8.88%
Required state contribution rate	5.95%	5.95%

### Contributions

Required member, District and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven year period. The contribution rates for each plan for the year ended June 30, 2015, are presented above and the District's total contributions were \$2,909,037.

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

At June 30, 2015, 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

State's proportionate share of the net pension liability associated with the District

Total

\$	39,151,313
	23,641,253
<u>\$</u>	<u>62,792,566</u>

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2015**

The net pension liability was measured as of June 30, 2014. 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. At June 30, 2015, the District's proportion was 0.0670 percent.

For the year ended June 30, 2015, the District recognized its proportionate share pension expense of \$3,380,023. In addition, the District also recorded pension expense and revenue of \$2,041,004 for support provided by the State. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 2,909,037	\$ -
Net differences between projected and actual earnings on plan investments	-	9,640,936
Total	\$ 2,909,037	\$ 9,640,936

The deferred outflow 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 year ended June 30, 2016. The deferred inflow of resources will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Amortization
2016	\$ 2,410,234
2017	2,410,234
2018	2,410,234
2019	2,410,234
Total	\$ 9,640,936

### Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2013, and rolling forward the total pension liability to June 30, 2014. The financial reporting actuarial valuation as of June 30, 2013, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2013
Measurement date	June 30, 2014
Experience study	July 1, 2006 through June 30, 2010
Actuarial cost method	Entry age normal
Discount rate	7.60%
Investment rate of return	7.60%
Consumer price inflation	3.00%
Wage growth	3.75%

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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

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

Asset Class	Assumed Asset Allocation	Long-term Expected Real Rate of Return
Global equity	47%	4.50%
Private equity	12%	6.20%
Real estate	15%	4.35%
Inflation sensitive	5%	3.20%
Fixed income	20%	0.20%
Cash/liquidity	1%	0.00%

### Discount Rate

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

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

Discount Rate	Net Pension Liability
1% decrease (6.60%)	\$ 61,026,658
Current discount rate (7.60%)	\$ 39,151,313
1% increase	\$ 20,911,251

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

### 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, 2013 annual actuarial valuation reports, Schools Pool Actuarial Valuation, and the Risk Pool Actuarial Valuation Report, Safety, 2013. These reports and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/forms-publications>.

#### 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.

The CalPERS provisions and benefits in effect at June 30, 2015, are summarized as follows:

	School Employer Pool (CalPERS)	
	On or before December 31, 2012	On or after January 1, 2013
Hire date		
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	7.000%	6.000%
Required employer contribution rate	11.771%	11.771%

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

### 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, 2015, are presented above and the total District contributions were \$1,216,638.

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

As of June 30, 2015, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$10,616,563. The net pension liability was measured as of June 30, 2014. 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. At June 30, 2015, the District's proportion was 0.0935 percent.

For the year ended June 30, 2015, the District recognized pension expense of \$847,608. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 1,216,638	\$ -
Adjustment to changes in proportionate share	-	218,695
Net differences between projected and actual earnings on plan investments	-	3,647,970
Total	\$ 1,216,638	\$ 3,866,665

The deferred outflow 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 year ended June 30, 2016. The deferred inflow of resources that related to projected and actual earnings will be amortized over a closed five-year period and that related to changes in proportionate share will be amortized over a closed four year period. All deferred inflow of resources will be recognized in pension expense as follows:

Year Ended June 30,	Amortization
2016	\$ 984,891
2017	984,891
2018	984,891
2019	911,992
Total	\$ 3,866,665

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

### Actuarial Methods and Assumptions

Total pension liability for the SEP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2013, and rolling forward the total pension liability to June 30, 2014. The financial reporting actuarial valuation as of June 30, 2013, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2013
Measurement date	June 30, 2014
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7.50%
Investment rate of return	7.50%
Consumer price inflation	2.75%
Wage growth	3.00%

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

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

Asset Class	Assumed Asset Allocation	Long-term Expected Real Rate of Return
Global equity	47%	5.25%
Global fixed income	19%	0.99%
Private equity	12%	6.83%
Real estate	11%	4.50%
Inflation sensitive	6%	0.45%
Infrastructure and Forestland	3%	4.50%
Liquidity	2%	-0.55%

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

### Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

Discount rate	Net Pension Liability
1% decrease (6.50%)	\$ 18,623,874
Current discount rate (7.50%)	\$ 10,616,563
1% increase (8.50%)	\$ 3,925,646

### 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 \$1,691,859, \$1,622,011, and \$1,521,813 for the fiscal years ending June 30, 2015, 2014 and 2013. These amounts have been allocated in General Fund, Adult Education Fund and Child Development Fund for the amounts shown in the following schedules. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves and have not been included in the budget amounts reported in the General Fund Budgetary Comparison Schedule.

## NOTE 14 - COMMITMENTS AND CONTINGENCIES

### Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2015.

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

### Construction Commitments

As of June 30, 2015, the District had the following commitments with respect to the unfinished capital projects:

Capital Project	Remaining Construction Commitment	Expected Date of Completion
District-wide technology infrastructure upgrade and hardware purchase	\$ 1,172,252	Jun-16
Charter school of Morgan Hill new multi-purpose room	2,213,924	Feb-16
San Martin/Gwinn Modernization	722,111	Oct-16
JAMM/Paradise Valley/Nordstrom roof/mechanical restroom	227,698	Mar-16
JAMM/Paradise Valley/Nordstrom roof/fire alarm	495,092	Nov-15
Nordstrom multi-purpose room	285,000	Aug-18
Paradise Valley multi-purpose room	285,000	Dec-14
Walsh modernization	606,595	Dec-15
Britton new campus	740,939	Aug-20
Total	<u>\$ 6,748,611</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, 2015, the District made payment of \$709,939 for workers' compensation insurance and \$520,591 for property liability coverage to the Santa Clara County Schools Insurance Group.

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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### NOTE 16 - RESTATEMENT OF PRIOR YEAR NET POSITION

The District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, in the current year. The restatement does not include deferred inflows of resources, as this information was not available. In addition, the District corrected understated prior year SELPA expense to its beginning balance. As a result, the effect on the current fiscal year is as follows:

#### Statement of Net Position

Net Position - Beginning	\$ 166,915,264
Restatement related to pension activities	59,036,554
Restatement related to understated SELPA expense from prior year	656,402
Net Position - Beginning as Restated	<u>\$ 107,222,308</u>

### NOTE 17 - SUBSEQUENT EVENTS

Management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the balance sheet dated December 14, 2015, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that would have a material impact on the current year financial statements.

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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, 2015

	Budgeted Amounts		Actual	Variances - Positive (Negative) Final to Actual
	Original	Final		
<b>REVENUES</b>				
Local control funding formula	\$ 57,962,240	\$ 59,144,893	\$ 59,144,893	\$ -
Federal sources	3,415,887	3,727,900	3,727,900	-
Other state sources	3,508,387	6,225,618	6,225,618	-
Other local sources	5,889,690	6,730,070	6,730,071	1
<b>Total Revenues</b>	<b>70,776,204</b>	<b>75,828,481</b>	<b>75,828,482</b>	<b>1</b>
<b>EXPENDITURES</b>				
Current				
Certificated salaries	31,619,866	33,386,155	33,386,155	-
Classified salaries	10,391,076	10,477,953	10,477,953	-
Employee benefits	11,924,148	13,102,199	13,102,200	(1)
Books and supplies	2,790,479	4,251,340	4,251,340	-
Services and operating expenditures	7,348,613	8,547,296	8,547,298	(2)
Other outgo	3,796,705	3,684,786	3,684,786	-
Capital outlay	2	896,321	896,321	-
<b>Total Expenditures</b>	<b>67,870,889</b>	<b>74,346,050</b>	<b>74,346,053</b>	<b>(3)</b>
<b>Excess of Revenues Over Expenditures</b>	<b>2,905,315</b>	<b>1,482,431</b>	<b>1,482,429</b>	<b>(2)</b>
<b>Other Financing Sources (Uses):</b>				
Transfers in	142,000	84,135	84,135	-
Transfers out	(1,176,072)	(1,826,072)	(1,826,072)	-
<b>Net Financing Uses</b>	<b>(1,034,072)</b>	<b>(1,741,937)</b>	<b>(1,741,937)</b>	<b>-</b>
<b>NET CHANGE</b>				
<b>IN FUND BALANCES</b>	<b>1,871,243</b>	<b>(259,506)</b>	<b>(259,508)</b>	<b>(2)</b>
<b>Fund Balance - Beginning</b>	<b>26,510,798</b>	<b>26,510,798</b>	<b>26,510,798</b>	<b>-</b>
<b>Fund Balance - Ending</b>	<b>\$ 28,382,041</b>	<b>\$ 26,251,292</b>	<b>\$ 26,251,290</b>	<b>\$ (2)</b>

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING PROGRESS FOR THE YEAR ENDED JUNE 30, 2015

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Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
July 1, 2013	\$ -	\$ 20,977,123	\$ 20,977,123	0%	\$ 41,678,437	50.33%
July 1, 2011	-	22,666,617	22,666,617	0%	40,673,421	55.73%
July 1, 2009	68,343	5,616,811	5,548,468	1%	40,673,421	13.29%

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY FOR THE YEAR ENDED JUNE 30, 2015

	<u>2015</u>
<b>CalSTRS</b>	
District's proportion of the net pension liability	<u>0.0670%</u>
District's proportionate share of the net pension liability	\$ 39,151,313
State's proportionate share of the net pension liability associated with the District	<u>23,641,253</u>
Total	<u>\$ 62,792,566</u>
District's covered - employee payroll	<u>\$ 30,099,374</u>
District's proportionate share of the net pension liability (asset) as a percentage of its covered - employee payroll	<u>130.07%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>77%</u>
 <b>CalPERS</b>	
District's proportion of the net pension liability (asset)	<u>0.0935%</u>
District's proportionate share of the net pension liability (asset)	<u>\$ 10,616,563</u>
District's covered - employee payroll	<u>\$ 9,812,471</u>
District's proportionate share of the net pension liability (asset) as a percentage of its covered - employee payroll	<u>108.19%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>83%</u>

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

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## SCHEDULE OF DISTRICT PENSION CONTRIBUTIONS FOR THE YEAR ENDED JUNE 30, 2015

	<u>2015</u>
<b>CalSTRS</b>	
Contractually required contribution	\$ 2,909,037
Contributions in relation to the contractually required contribution	<u>2,909,037</u>
Contribution deficiency (excess)	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 29,917,624</u>
Contributions as a percentage of covered - employee payroll	<u>9.72%</u>
<b>CalPERS</b>	
Contractually required contribution	\$ 1,216,638
Contributions in relation to the contractually required contribution	<u>1,216,638</u>
Contribution deficiency (excess)	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 10,633,088</u>
Contributions as a percentage of covered - employee payroll	<u>11.44%</u>

*Note:* In the future, as data become 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, 2015

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):			
No Child Left Behind			
Title I - Basic Grants Low Income and Neglected	84.010	14981	\$ 1,046,541
Title I - Migrant Education	84.011	14326	331,359
Title I - Migrant Education Summer Program	84.011	10005	82,789
Title I - Advance Placement Program	84.330	14831	5,883
Title II - Improving Teacher Quality	84.367	14341	227,670
Title III - Limited English Proficient (LEP) Student Program	84.365	14346	231,313
Title III - Immigrant Education Program	84.365	15146	14,745
Individuals with Disabilities Education Act (IDEA):			
Basic Local Assistance Entitlement	84.027	13379	1,318,475
IDEA, Part B, Section 611, Private Schools	84.027	10115	4,594
IDEA, Preschool Grants, Part B, Section 611	84.027A	13682	40,246
IDEA, Preschool Grants, Part B, Section 619	84.173	13430	73,494
IDEA, Mental Health Allocation Plan, Part B, Section 611	84.027A	14468	99,325
IDEA, Preschool Staff Development, Part B, Section 619	84.173A	13431	480
Carl Perkins Act:			
Vocational and Applied Technology	84.048	14894	69,309
Adult Education Act:			
Adult Basic Education	84.002A	14508	38,854
Adult Secondary Education	84.002	13978	65,171
English Literacy and Civics Education	84.002A	14109	7,568
Subtotal			<u>3,657,816</u>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Passed through CDE:			
Child Nutrition Act			
National School Lunch Program	10.555	13391	1,209,148
Especially Needy Breakfast	10.553	13526	565,441
Meal Supplement	10.556	13568	31,373
Child and Adult Care Food Program	10.558	N/A	120,663
Commodity Supplemental Food Program <sup>1</sup>	10.555	13524	158,546
Subtotal			<u>2,085,171</u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
Passed through CDE:			
Medi-Cal Billing Option	93.778	10013	181,677
Total Expenditures of Federal Awards			<u>\$ 5,924,664</u>

<sup>1</sup> Not recorded in the financial statements.

See accompanying note to supplementary information.

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2015

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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 8 elementary schools, 2 middle schools, 2 high schools, 1 continuation, and 1 adult education school.

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Bob Benevento	President	2016
Ron Woolf	Vice President	2016
David Gerard	Member	2018
Donna Ruebush	Member	2018
Gino Borgioli	Member	2016
Rick Badillo	Member	2018
Amy Porter Jensen	Member	2018

### ADMINISTRATION

Steve Betando	Superintendent
Kirsten Perez	Assistant Superintendent of Business Services
Sharon Fawn Myers	Assistant Superintendent of Human Resources
Norma Martinez-Palmer	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, 2015

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	2,514.99	2,513.31
Fourth through sixth	1,861.41	1,857.11
Seventh and eighth	1,177.18	1,175.20
Ninth through twelfth	2,543.71	2,520.30
Total Regular ADA	<u>8,097.29</u>	<u>8,065.92</u>
Extended Year Special Education		
Transitional kindergarten through third	3.84	3.84
Fourth through sixth	2.97	2.97
Seventh and eighth	0.67	0.67
Ninth through twelfth	0.66	0.66
Total Extended Year Special Education	<u>8.14</u>	<u>8.14</u>
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	1.56	1.66
Fourth through sixth	1.38	1.44
Seventh and eighth	1.64	1.66
Ninth through twelfth	6.92	5.92
Total Special Education, Nonpublic, Nonsectarian Schools	<u>11.50</u>	<u>10.68</u>
Extended Year Special Education - Non public, Nonsectarian Schools		
Transitional kindergarten through third	0.35	0.35
Fourth through sixth	0.15	0.15
Seventh and eighth	0.39	0.39
Ninth through twelfth	1.21	1.21
Total Extended Year School	<u>2.10</u>	<u>2.10</u>
Total ADA	<u>8,119.03</u>	<u>8,086.84</u>

See accompanying note to supplementary information.

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## SCHEDULE OF INSTRUCTIONAL TIME FOR THE YEAR ENDED JUNE 30, 2015

Grade Level	1986-87 Minutes Requirement	Reduced 1986-87 Minutes Requirement	2014-15 Actual Minutes	Number of Days Traditional Calendar	Status
Kindergarten	36,000	35,000	37,425	180	Complied
Grade 1	50,400	49,000	50,900	180	Complied
Grade 2	50,400	49,000	50,900	180	Complied
Grade 3	50,400	49,000	50,900	180	Complied
Grade 4	54,000	52,500	54,500	180	Complied
Grade 5	54,000	52,500	54,500	180	Complied
Grade 6	54,000	52,500	54,500	180	Complied
Grade 7	54,000	52,500	55,730	180	Complied
Grade 8	54,000	52,500	55,730	180	Complied
Grade 9	64,800	63,000	64,876	180	Complied
Grade 10	64,800	63,000	64,876	180	Complied
Grade 11	64,800	63,000	64,876	180	Complied
Grade 12	64,800	63,000	64,876	180	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, 2015

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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, 2015, Unaudited Actuals	\$ 23,116,701	\$ 2,570,391	\$ 564,198
As a result of the implementation of GASB Statement No. 54, Fund 17 and Fund 20 are combined into the financial statement.	3,134,589	(2,570,391)	(564,198)
Balance, June 30, 2015, Audited Financial Statement	<u>\$ 26,251,290</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, 2015

	(Budget) 2016 <sup>1</sup>	2015	2014	2013
<b>GENERAL FUND<sup>4</sup></b>				
Revenues	\$ 83,744,387	\$ 75,813,966	\$ 70,833,137	\$ 69,981,245
Transfers in	191,200	84,135	1,661,500	185,812
Total Revenues and Transfers In	83,935,587	75,898,101	72,494,637	70,167,057
Expenditures	78,662,105	74,346,053	67,330,650	64,376,456
Transfers out	716,000	1,826,072	3,894,079	416,000
Total Expenditures and Transfers Out	79,378,105	76,172,125	71,224,729	64,792,456
<b>INCREASE (DECREASE) IN FUND BALANCE</b>	<b>\$ 4,557,482</b>	<b>\$ (274,024)</b>	<b>\$ 1,269,908</b>	<b>\$ 5,374,601</b>
<b>ENDING FUND BALANCE</b>	<b>\$ 27,674,183</b>	<b>\$ 23,116,701</b>	<b>\$ 23,390,725</b>	<b>\$ 22,120,817</b>
<b>AVAILABLE RESERVES <sup>2</sup></b>	<b>\$ 13,399,358</b>	<b>\$ 16,248,266</b>	<b>\$ 16,091,821</b>	<b>\$ 12,004,602</b>
<b>AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO <sup>3</sup></b>	<b>16.88%</b>	<b>21.33%</b>	<b>23.12%</b>	<b>18.97%</b>
<b>LONG-TERM OBLIGATIONS</b>	<b>\$ 162,231,578</b>	<b>\$ 175,010,717</b>	<b>\$ 134,554,285</b>	<b>\$ 135,670,683</b>
<b>K-12 AVERAGE DAILY ATTENDANCE AT P-2</b>	<b>8,056</b>	<b>8,119</b>	<b>8,208</b>	<b>8,321</b>

The General Fund balance has increased by \$995,884 over the past two years. The fiscal year 2015-2016 budget projects an increase of \$4,557,482 (19 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 deficit in the current fiscal year, but anticipates incurring an operating surplus during the 2015-2016 fiscal year. Total long-term obligations have increased by \$39,340,034 over the past two years. The significant increase is mainly related to GASB 68 implementation that requires the District to recognize its proportionate share of net pension liability of CalPERS and CalSTRS.

Average daily attendance has decreased by 202 over the past two years. The ADA is expected to decrease by 63 during fiscal year 2015-2016.

<sup>1</sup> Budget 2016 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> On-behalf payments of \$1,691,859, \$1,622,011, and \$1,521,813, have been included from this schedule for fiscal year ending June 30, 2015, 2014 and 2013, respectively.

<sup>4</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, 2015**

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<u>Name of Charter School</u>	<u>Included in Audit Report</u>
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, 2015

	Adult Education Fund	Child Development Fund	Cafeteria Fund
<b>ASSETS</b>			
Deposits and investments	\$ 163,188	\$ 38	\$ 612,418
Receivables	117,583	81,603	282,186
Due from other funds	-	-	-
Stores inventories	-	-	1,826
<b>Total Assets</b>	<b>\$ 280,771</b>	<b>\$ 81,641</b>	<b>\$ 896,430</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 2,917	\$ 67,832	\$ 12,312
Due to other funds	-	13,809	432
<b>Total Liabilities</b>	<b>2,917</b>	<b>81,641</b>	<b>12,744</b>
<b>Fund Balances:</b>			
Nonspendable	5,000	-	2,826
Restricted	36,376	-	880,860
Committed	236,478	-	-
<b>Total Fund Balances</b>	<b>277,854</b>	<b>-</b>	<b>883,686</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 280,771</b>	<b>\$ 81,641</b>	<b>\$ 896,430</b>

See accompanying note to supplementary information.

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<b>Deferred Maintenance Fund</b>	<b>Capital Facilities Fund</b>	<b>Capital Projects Fund</b>	<b>Total Non-Major Governmental Funds</b>
\$ 278,687	\$ 7,411,167	\$ 1,548,978	\$ 10,014,476
267	26,530	1,836	510,005
750,000	-	-	750,000
-	-	-	1,826
<u>\$ 1,028,954</u>	<u>\$ 7,437,697</u>	<u>\$ 1,550,814</u>	<u>\$ 11,276,307</u>
\$ -	\$ 48,137	\$ 587	\$ 131,785
-	84,135	-	98,376
-	132,272	587	230,161
-	-	-	7,826
-	7,305,425	1,550,227	9,772,888
1,028,954	-	-	1,265,432
<u>1,028,954</u>	<u>7,305,425</u>	<u>1,550,227</u>	<u>11,046,146</u>
<u>\$ 1,028,954</u>	<u>\$ 7,437,697</u>	<u>\$ 1,550,814</u>	<u>\$ 11,276,307</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, 2015

	Adult Education Fund	Child Development Fund	Cafeteria Fund
<b>REVENUES</b>			
Federal sources	\$ 111,593	\$ -	\$ 1,926,625
Other state sources	27,478	244,608	159,994
Other local sources	35,294	123	541,912
<b>Total Revenues</b>	<u>174,365</u>	<u>244,731</u>	<u>2,628,531</u>
<b>EXPENDITURES</b>			
Current			
Instruction	277,679	230,923	-
Instruction-related activities:			
School site administration	262,576	-	-
Pupil services:			
Food services	-	-	2,502,657
General administration:			
All other general administration	25,347	13,809	142,398
Plant services	6,751	-	-
Facility acquisition and construction	-	-	-
<b>Total Expenditures</b>	<u>572,353</u>	<u>244,732</u>	<u>2,645,055</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>(397,988)</u>	<u>(1)</u>	<u>(16,524)</u>
<b>Other Financing Uses:</b>			
Transfers in	349,072	-	-
Transfers out	-	-	-
<b>Net Financing Uses</b>	<u>349,072</u>	<u>-</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>(48,916)</u>	<u>(1)</u>	<u>(16,524)</u>
<b>Fund Balance - Beginning</b>	326,770	1	900,210
<b>Fund Balance - Ending</b>	<u>\$ 277,854</u>	<u>\$ -</u>	<u>\$ 883,686</u>

See accompanying note to supplementary information.

<b>Deferred Maintenance Fund</b>	<b>Capital Facilities Fund</b>	<b>Capital Projects Fund</b>	<b>Total Non-Major Governmental Funds</b>
\$ -	\$ -	\$ -	\$ 2,038,218
-	-	-	432,080
692	2,833,744	509,716	3,921,481
692	2,833,744	509,716	6,391,779
-	-	-	508,602
-	-	-	262,576
-	-	-	2,502,657
-	-	-	181,554
366,796	30,639	1,571	405,757
-	1,312,106	627,637	1,939,743
366,796	1,342,745	629,208	5,800,889
(366,104)	1,490,999	(119,492)	590,890
1,061,000	-	-	1,410,072
-	(84,135)	-	(84,135)
1,061,000	(84,135)	-	1,325,937
694,896	1,406,864	(119,492)	1,916,827
334,058	5,898,561	1,669,719	9,129,319
\$ 1,028,954	\$ 7,305,425	\$ 1,550,227	\$ 11,046,146

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2015

### Schedule of Expenditures of Federal Awards

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

Description	CFDA Number	Amount
Total Federal Revenues Statement of Revenues, Expenditures and Changes in Fund Balances:		\$ 6,457,174
Build America Bonds interest subsidy is excluded from the provisions of OMB Circular A-133, therefore, is not presented by the District on the Schedule of Expenditures of Federal Awards.	N/A	(691,056)
Commodities are not recorded on the financial statement.	10.555	158,546
Total Schedule of Expenditures of Federal Awards		<u>\$ 5,924,664</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 neither met nor exceeded its target funding. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *Education Code* Sections 46200 through 46206.

Districts must maintain their instructional minutes at the 1986-87 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, 2015**

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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, 2015, 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 14, 2015.

**Emphasis of Matter - Change in Accounting Principles**

As discussed in Note 13 to the financial statements, the District adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered 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 Matter**

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 District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Wassinek, Trine, Day & Co., LLP*

Palo Alto, California

December 14, 2015



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

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 compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Morgan Hill Unified School District's (the District) major Federal programs for the year ended June 30, 2015. Morgan Hill Unified School District's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about 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, 2015.

## **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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Palo Alto, California  
December 14, 2015



## 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 compliance with the types of compliance requirements as identified in the *2014-15 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, 2015.

### Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its State's 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 *2014-15 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.

### Basis for Qualified Opinion on Public Hearing for Instructional Material

As described in the accompanying schedule of findings and questioned costs 2015-1, Morgan Hill Unified School District did not comply with requirements regarding Public Hearing for Instructional Material. Compliance with such requirements is necessary, in our opinion, for Morgan Hill Unified School District to comply with the requirements applicable to that program.

### ***Qualified Opinion on Public Hearing for Instructional Material***

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Morgan Hill Unified School District complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2015

### ***Unmodified Opinion on Each of the Other Programs***

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, 2015.

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

	<u>Procedures Performed</u>
Attendance Accounting:	
Attendance Reporting	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	Yes
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	No, See below
Regional Occupational Centers or Programs Maintenance of Effort	No, See below
Adult Education Maintenance of Effort	No, See below
California Clean Energy Jobs Act	Yes
After School Education and Safety Program:	
General Requirements	Yes
After School	Yes
Before School	No, See below
Proper Expenditure of Education Protection Account Funds	Yes
Common Core Implementation Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes

Charter Schools:

Attendance

Mode of Instruction

Non Classroom-Based Instruction/Independent Study

Determination of Funding for Non Classroom-Based Instruction

Annual Instruction Minutes Classroom-Based

Charter School Facility Grant Program

Procedures  
Performed

No, See below

No, See below

No, See below

No, See below

No, See below

No, See below

The District does not offer Early Retirement Incentive, Juvenile Court Schools, Middle or Early College High Schools, Transportation, Adult Education, Regional Occupational Centers, Before School Education and Safety Program, and Charter Schools. Therefore, we did not perform any procedures related to these programs.

*Lavrinek, Trine, Day & Co., LLP*

Palo Alto, California

December 14, 2015

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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, 2015

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### FINANCIAL STATEMENTS

Type of auditor's report issued:	<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:	
Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB A-133	<u>No</u>
Identification of major programs:	<u>Unmodified</u>

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.365	Title III, Limited English Proficient (LEP) Student Program and Immigrant Education
10.553, 10.555, 10.556, 10.558, 10.555	Child Nutrition Cluster

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

### STATE AWARDS

Type of auditor's report issued on compliance for all programs:  
Unmodified for all programs except for the following program which  
was qualified:

<u>Name of Program</u>
Instructional Materials

**MORGAN HILL UNIFIED SCHOOL DISTRICT**

**FINANCIAL STATEMENT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2015**

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None reported.

**MORGAN HILL UNIFIED SCHOOL DISTRICT**

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2015**

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None reported.

# **MORGAN HILL UNIFIED SCHOOL DISTRICT**

## **STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2015**

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**Finding:** 2015-1

**Program:** Public Hearing of Instructional Material

**Five Digit Code:** 70000

**AB 3627 Finding Types:** State Compliance

**Criteria:**

The State requires Districts to conduct a public hearing for instructional materials within the first eight weeks of the first day of instruction.

**Condition:**

It was noted that the District conducted the public hearing for instructional materials on 10/21/14. The first day of instruction was on 8/14/14. Therefore, the public hearing was not within first eight weeks of instruction.

**Questioned Costs:**

None

**Context:**

The State requires Districts to meet specific criteria relating to instructional materials per State guidelines.

**Effect:**

Not meeting this compliance requirement may subject the District to additional action from government oversight agencies.

**Recommendation:**

We recommend the District to provide additional oversight to ensure that the public hearing for instructional materials is performed as according to State guidelines.

**Views of Responsible Official:**

With the adoption of the new common core state standards, the district did not receive all new materials by the start of school to conduct a public hearing. Therefore, the district decided to postpone the public hearing until all materials were received and accessible to students.

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2015

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

### ***Financial Statement Findings***

None reported.

### ***Federal Awards Findings***

**Finding:** 2014-01

**Program:** Title III – Limited English Proficiency (LEP) Student Program

**CFDA No.:** 84.365

**Federal Grantor:** U.S. Department of Education

**Passed-through:** Not Applicable, Direct Grant

**Award No.:** Various

**Award Fiscal Year:** 2014

**Compliance Requirement:** Activities Allowed/Allowable Costs

**Five Digit Code:** 5000

**AB 3627 Finding Types:** Federal Compliance

### **Criteria:**

The Supplement not Supplant requirement under the federal compliance requirement Level of Effort requires that a District may use program funds only to supplement and, to the extent practical, increase the level of funds that would, in the absence of the federal funds, be made available from non-federal sources for the education of participating students. In no case may an LEA use federal program funds to supplant funds from non-federal sources.

### **Condition:**

During our testing of compliance with the Level of Effort requirements, it was noted that Morgan Hill Unified School District (the District) purchased core curriculum materials and textbooks for the ELD and dual immersion programs.

### **Questioned Costs:**

\$14,409

### **Context:**

The condition noted above was identified during our examination of the District's compliance with the Supplement not Supplant requirement.

### **Effect:**

Title III – Limited English Proficiency funds were spent on core curriculum materials and textbooks for the ELD and dual immersion programs. The requirement is to spend the funds on supplemental curriculum materials.

### **Recommendation:**

We recommend the District to reverse of the funds to an allowable funding source.

### **Current Status:**

Implemented.

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2015

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### *State Awards Findings*

**Finding:** 2014-02

**Program:** Public Hearing of Instructional Material

**Five Digit Code:** 70000

**AB 3627 Finding Types:** State Compliance

### **Criteria:**

The State requires Districts to conduct a public hearing for instructional materials within the first eight weeks of the first day of instruction in accordance with Education Code 60119.

### **Condition:**

It was noted that the District conducted the public hearing for instructional materials on 11/12/13. The first day of instruction was on 8/15/13. Therefore, the public hearing was not within first eight weeks of instruction.

### **Questioned Costs:**

None

### **Context:**

The State requires Districts to meet specific criteria relating to instructional materials per State guidelines.

### **Effect:**

Not meeting this compliance requirement may subject the District to additional action from government oversight agencies.

### **Recommendation:**

We recommend the District to provide additional oversight to ensure that the public hearing for instructional materials is performed as according to State guidelines.

### **Current Status:**

Not Implemented, see 2015-1