

**MORGAN HILL UNIFIED
SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED
JUNE 30, 2013**

MORGAN HILL UNIFIED SCHOOL DISTRICT

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
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, 2013, 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 *Standards and Procedures for Audits of California K-12 Local Education Agencies 2012-2013*, 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Morgan Hill Unified School District, as of June 30, 2013, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Morgan Hill Unified School District's basic financial statements. The Schedule of Expenditures of Federal Awards, as required by Office of Management and Budget Circular A-133, *Audits of State, Local Government, and Non-Profit Organizations*, and other supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Such 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. The 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 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 2, 2013, 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.

Clavins, Trine, Day & Co., LLP

Palo Alto, California
December 2, 2013

MORGAN HILL UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

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, 2013. 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 in taking action to make the very difficult necessary budget reductions ensuring the District maintains its fiscal solvency.
- The District maintains sufficient reserves for a district its size. It meets the State required reserve for economic uncertainty of 3% of total general fund expenditures, transfers out, and other uses.
- Fiscal Services staff met with school site and program managers to review budget monitoring and provide training on appropriate use of expenditures.
- The District followed recommendations from School Services and swept Tier III carryover to reduce budget reductions.
- Steps were taken in March to close spending one month earlier in order to control year end spending, resulting in a larger ending balance. During fiscal year 2012-13 general fund expenditures and other financing uses totaled \$64.6 million.
- Long-term liabilities on outstanding general obligation bonds increased by \$52.6 million due to a combination of \$56.9 million new issuance, \$6.3 million payments and \$1.9 accreted interest in the current year.
- At June 30, 2013, the District had available reserves of \$12.0 million in the general fund representing a reserve of 19.0% of total general fund expenditures.
- The District's financial status remains fiscally stable due to projecting and implementing the appropriate budget reductions thus enabling the District to continue to file a positive certification.

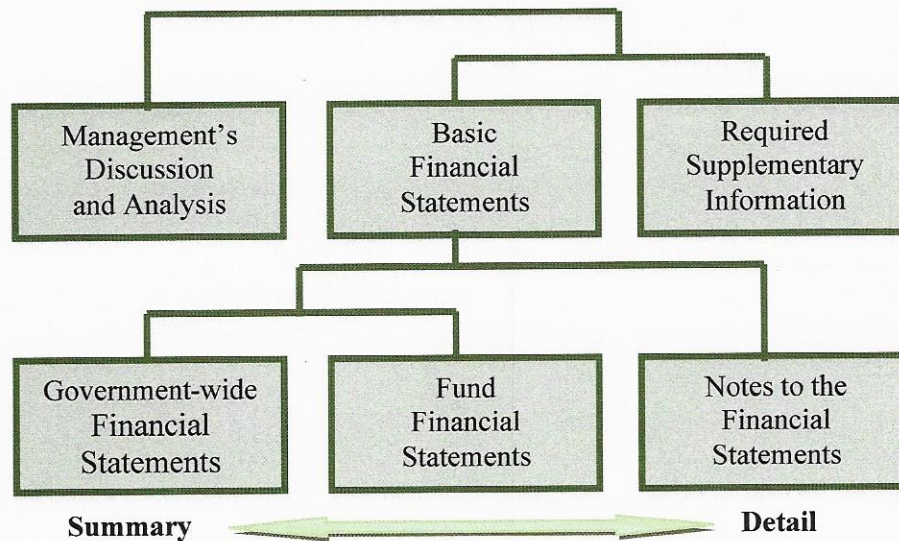
MORGAN HILL UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

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, 2013

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 2012-2013?"

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.

MORGAN HILL UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

◆ 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.

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

The School District as a Whole

The District's net position was \$154.2 million at June 30, 2012. Of this amount \$16.1 million was unrestricted. For the period ending June 30, 2013, the District's net position increased to \$160.0 million, or a 3.78% increase. Of this amount \$21.8 million was unrestricted (see Table 1).

(Table 1)
Comparative Statement of Net Position

	Governmental Activities	
	2013	2012
Assets		
Deposits and investments	\$ 99,466,082	\$ 30,468,786
Receivables	5,173,781	9,077,621
Deferred charges	1,466,280	1,144,046
Stores inventory	30,113	43,679
Capital assets	196,213,505	198,577,599
Total Assets	<u>302,349,761</u>	<u>239,311,731</u>
Liabilities		
Accounts payable and other current liabilities	5,271,127	3,049,622
Deferred revenue	1,391,474	800,828
Long-term liabilities	135,670,683	81,280,346
Total Liabilities	<u>142,333,284</u>	<u>85,130,796</u>
Net position		
Net investment in capital assets	119,380,657	124,988,500
Restricted	18,864,887	13,132,649
Unrestricted	21,770,933	16,059,786
Total Net Position	<u>\$ 160,016,477</u>	<u>\$ 154,180,935</u>

MORGAN HILL UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

The District's net position increased to \$5,835,543 for this fiscal year (see Table 2). The District's expenses for instruction and pupil services represented 75 percent of total expenses. The purely administrative activities of the District account for just 5 percent of total costs. The remaining 20 percent 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 Table 2).

(Table 2)
Comparative Statement of Changes in Net Position

		Governmental Activities	
		2013	2012
Revenues			
Program revenues:		\$ 17,387,457	\$ 17,409,018
General revenues:			
Taxes levied for general purposes		49,909,610	40,103,226
Taxes levied for debt service		8,396,230	7,891,198
Taxes levied for other specific purposes		1,205,930	1,118,783
Federal and state aid not restricted to specific purposes		6,102,093	12,495,324
Interest and investment earnings		303,577	269,586
Miscellaneous		4,122,563	4,043,678
Total Revenues		87,427,460	83,330,813
Expenses			
Instruction		44,220,400	44,648,060
Instruction related services		7,853,732	8,499,856
Pupil support services		8,836,277	8,890,199
General administration		4,282,883	4,071,792
Plant services		6,602,724	3,483,790
Other		9,795,902	9,524,805
Total Expenses		81,591,918	79,118,502
Increase In Net Position		\$ 5,835,542	\$ 4,212,311

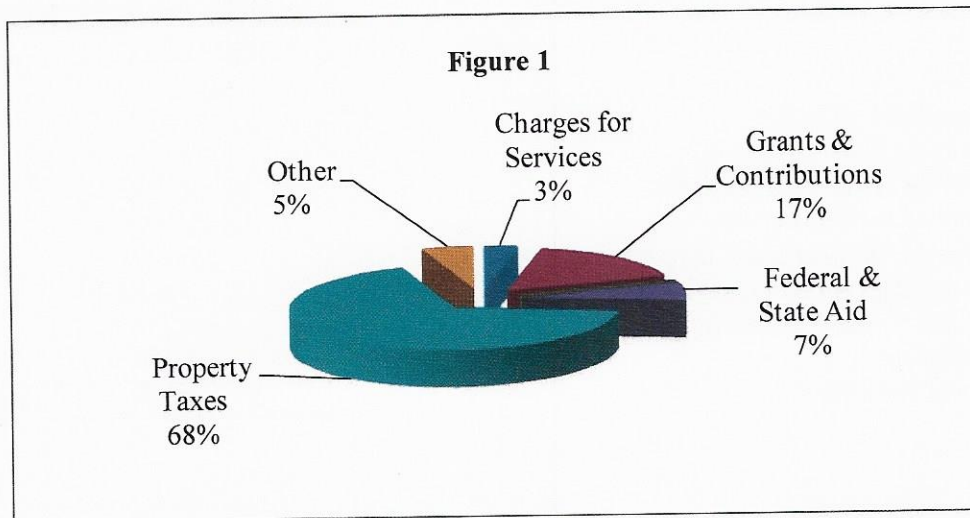
MORGAN HILL UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

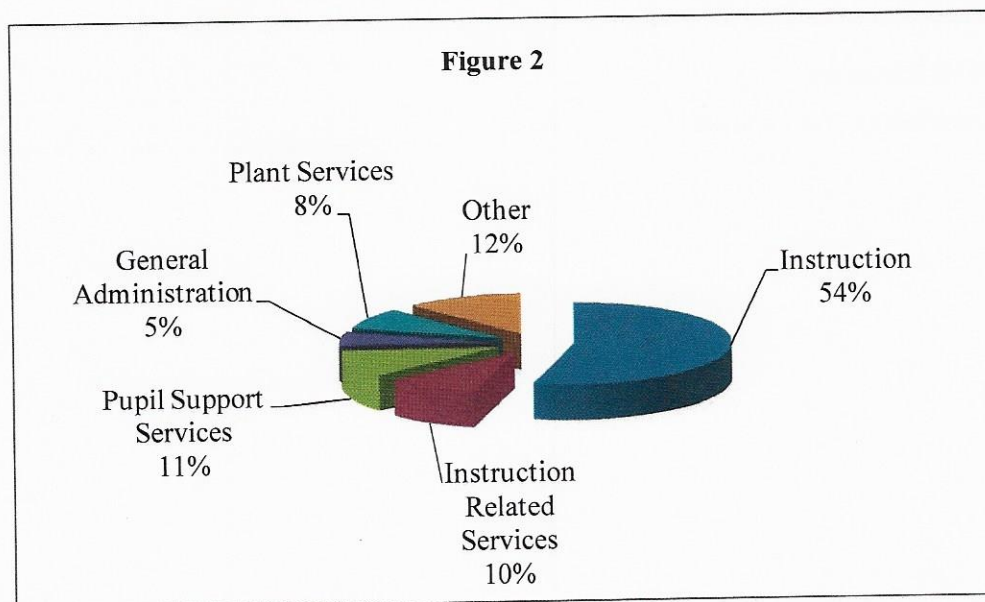
Governmental Activities

As reported in the Statement of Activities, the cost of all the District's governmental activities this year was \$81.6 million. The amount that our local taxpayers financed for these activities through property taxes was \$59.5 million. The amount that our local taxpayers financed for these activities through property taxes was \$59.5 million. Federal and State aid not restricted to specific purposes total \$6.1 million. State and Federal Categorical program revenues which include charges for services and sales of \$2.9 million and operating grants and contributions of \$14.5 million totaling over \$17.4 million, or 20% of the revenue of the entire District (See Figure 1).

Source of Revenue for the 2012-2013 Fiscal Year



Expenses for the 2012-2013 Fiscal Year



MORGAN HILL UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013

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 \$99.2 million, an increase of \$62.5 million from the previous fiscal year. This increase is primarily the result of the General Fund balance increasing \$2.0 million as a result of reduced expenditures due to the District becoming Basic Aid.

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating 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 \$24.2 million. The State recommends an ending reserve for economic uncertainties of 3%. The District's ending reserve for economic uncertainty was 3%.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of the 2012-2013 fiscal year, the District had investments of \$257.2 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 \$196.2 million at June 30, 2013 which is a decrease of \$2.4 million from the previous year.

MORGAN HILL UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

(Table 3)
Comparative Schedule of Capital Assets
(net of depreciation)
June 30, 2013 and 2012

	2013	2012	Difference	Percentage Change
Land	\$ 7,467,149	\$ 7,467,149	\$ -	0.0%
Buildings and improvements	237,918,712	186,259,465	51,659,247	27.7%
Machinery and equipment	8,016,733	3,189,542	4,827,191	151.3%
Work in progress	3,830,233	1,661,443	2,168,790	100.0%
Totals	\$ 257,232,827	\$ 198,577,599	\$ 58,655,228	29.5%

Long-Term Obligations

As of June 30, 2013, the District had \$135.7 million in long-term obligations outstanding.

(Table 4)
Comparative Schedule of Outstanding Debt
June 30, 2013 and 2012

	2013	2012
General obligation bonds (Including premiums, accretions and defeasance costs)	\$ 118,794,232	\$ 66,208,260
Certificates of participation	13,311,247	13,297,407
Compensated absences	307,376	296,232
Net OPEB obligation	3,257,828	1,478,447
Totals	\$ 135,670,683	\$ 81,280,346

FACTORS BEARING ON THE DISTRICT'S FUTURE

Under the leadership of superintendent, Dr. Wesley Smith, 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. The Morgan Hill Unified School District has set the following goals:

- **STUDENT ACHIEVEMENT:** Student achievement is at the core of all of our district goals. We believe that students succeed best in an exciting and challenging environment where they are actively engaged in the learning process.
- **HIGHLY QUALIFIED AND DEDICATED EMPLOYEES:** We value, respect, and support our highly qualified and dedicated staff of classified, certificated and administrative employees who are committed to academic achievement for all students.
- **RESPONSIBLE FINANCIAL PRACTICES:** In a dynamic financial environment, the District will continue to ensure students' academic success. The District will maintain fiscal solvency and align priorities to expenses to support critical educational programs, by applying sound financial principles and practices.

MORGAN HILL UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013

- **SAFE, HEALTHY, AND SUSTAINABLE ENVIRONMENT:** By maintaining, modernizing and constructing facilities and providing appropriate services, the District will support students and staff in their educational endeavors. We will work to create schools that are safe; menus and programs that promote healthy living; and energy usage policies that are sustainable.
- **PARTNERSHIP THROUGH COMMUNICATION:** We appreciate the strong support network of parents and community members who work side-by-side with us, providing resources and enrichment that we would not otherwise have for our students.

The Morgan Hill Unified School District has five elementary schools in Program Improvement. Jackson Elementary and Walsh Elementary, each in year five of Program Improvement, have dedicated categorical resources and intensive staff development to assist the schools in working with their English language learner students. Effective 2012-13, Jackson became the District's first math and music academy. The District is investigating a focus academy for Walsh for the 2014-15 school year. 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 District 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. Currently a total of 229 employees meet these eligibility requirements. During the 2012-13 school year, expenditures of \$668,535 were recognized for retirees' health care benefits. In July 2009 the District implemented GASB 45 (Governmental Accounting Standards Board 45) by establishing Fund 20 Special Reserve Fund for Postemployment 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.

Financially, we will continue to meet our obligations and maintain a 3% economic uncertainty reserve. The District will strive to achieve the goals defined by the Morgan Hill Board of Education; student achievement, fiscal solvency, and safe and orderly environment.

Stabilization of the State's economic health is desirable and would be beneficial to the District's financial environment. The Morgan Hill Board of Education and management will continue to provide the resources to ensure the support of our students' needs and capabilities.

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 fourth year in a row. The chart below depicts actual ADA for 2007-2013.

MORGAN HILL UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

<u>ADA P-2</u>	<u>2006-2007</u>	<u>2007-2008</u>	<u>2008-2009</u>	<u>2009-2010</u>	<u>2010-2011</u>	<u>2011-12</u>	<u>2012-13</u>
Elementary	5,738.38	5,825.40	5,939.36	5,858.56	5,809.00	5,688.00	5,670.00
High School	2,729.65	2,769.16	2,812.69	2,821.06	2,733.00	2,686.00	2,651.00
Total ADA	8,468.03	8,594.56	8,752.05	8,679.62	8,542.00	8,374.00	8,321.00
ADA Change	137.34	126.53	157.49	-72.43	-137.62	-168.00	-53.00
% Change	1.65%	1.49%	1.83%	-0.83%	-1.59%	-1.97%	-0.63%

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, 2013

	Governmental Activities
ASSETS	
Deposits and investments	\$ 99,466,082
Receivables	5,173,781
Prepaid Expenses	1,468
Deferred charges	1,464,812
Stores inventories	30,113
Capital assets not depreciated	11,297,382
Capital assets, net of accumulated depreciation	184,916,123
Total Assets	302,349,761
LIABILITIES	
Accounts payable	4,031,774
Interest payable	1,239,353
Deferred revenue	1,391,474
Current portion of long-term obligations	7,023,967
Noncurrent portion of long-term obligations	128,646,716
Total Liabilities	142,333,284
NET POSITION	
Net investment in capital assets	119,380,657
Restricted for:	
Grant restricted	3,825,058
Debt service	9,324,401
Capital projects	5,715,428
Unrestricted	21,770,933
Total Net Position	\$ 160,016,477

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, 2013

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Position
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction	\$ 44,220,400	\$ 13,864	\$ 7,359,917	\$ (36,846,619)
Instruction-related activities:				
Supervision of instruction	1,374,528	179	642,244	(732,105)
Instructional library and technology	221,876	219	7,430	(214,227)
School site administration	6,257,328	1,228	156,306	(6,099,794)
Pupil services:				
Home-to-school transportation	2,881,102	188,463	1,458,367	(1,234,272)
Food services	2,879,776	648,394	1,753,232	(478,150)
All other pupil services	3,075,399	1,502	1,029,492	(2,044,405)
General administration:				
Data processing	651,232	-	-	(651,232)
All other general administration	3,631,651	36,777	545,189	(3,049,685)
Plant services	6,602,724	30,866	22,189	(6,549,669)
Ancillary services	785,952	-	-	(785,952)
Community services	3,556	-	-	(3,556)
Interest on long-term obligations	5,183,057	-	-	(5,183,057)
Other outgo	3,823,337	1,998,889	1,492,710	(331,738)
Total Governmental-Type Activities	\$ 81,591,918	\$ 2,920,381	\$ 14,467,076	(64,204,461)
General revenues and subventions:				
Property taxes, levied for general purposes				49,909,610
Property taxes, levied for debt service				8,396,230
Taxes levied for other specific purposes				1,205,930
Federal and state aid not restricted to specific purposes				6,102,093
Interest and investment earnings				303,577
Interagency revenues				130,423
Miscellaneous				3,992,140
Subtotal, General Revenues				70,040,003
Change in Net Position				5,835,542
Net Position - Beginning				154,180,935
Net Position - Ending				\$ 160,016,477

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

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MORGAN HILL UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS BALANCE SHEET JUNE 30, 2013

	General Fund	Building Fund	Bond Interest and Redemption Fund
ASSETS			
Deposits and investments	\$ 23,055,923	\$ 60,182,280	\$ 9,093,500
Receivables	4,752,965	123,298	5,442
Due from other funds	85,812	-	-
Prepaid expenditures	1,468	-	-
Stores inventories	28,287	-	-
Total Assets	\$ 27,924,455	\$ 60,305,578	\$ 9,098,942
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 2,339,931	\$ 1,550,078	\$ -
Due to other funds	-	-	-
Deferred revenue	1,391,474	-	-
Total Liabilities	3,731,405	1,550,078	-
Fund Balances:			
Nonspendable	44,255	-	-
Restricted	3,198,589	55,272,631	9,098,942
Committed	-	-	-
Assigned	8,945,604	3,482,869	-
Unassigned	12,004,602	-	-
Total Fund Balances	24,193,050	58,755,500	9,098,942
Total Liabilities and Fund Balances	\$ 27,924,455	\$ 60,305,578	\$ 9,098,942

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

Non Major Governmental Funds	Total Governmental Funds
\$ 7,134,379	\$ 99,466,082
292,076	5,173,781
-	85,812
-	1,468
1,826	30,113
<u>\$ 7,428,281</u>	<u>\$ 104,757,256</u>

\$ 141,765	\$ 4,031,774
85,812	85,812
-	1,391,474
<u>227,577</u>	<u>5,509,060</u>

7,826	52,081
6,339,071	73,909,233
853,807	853,807
-	12,428,473
-	12,004,602
<u>7,200,704</u>	<u>99,248,196</u>
<u>\$ 7,428,281</u>	<u>\$ 104,757,256</u>

MORGAN HILL UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION JUNE 30, 2013

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

Total Fund Balance - Governmental Funds		\$ 99,248,196
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	\$ 257,232,827	
Accumulated depreciation is	(61,019,322)	
Net Capital Assets		196,213,505
Expenditures relating to issuance of long-term debt were recognized on modified accrual basis, but are not capitalized on the statement of net position.		1,464,812
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.		(1,239,353)
Long-term liabilities, 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	118,794,232	
COP payable	13,311,247	
Compensated absences (vacations)	307,376	
Net OPEB obligation	3,257,828	
Total Long-Term Liabilities		(135,670,683)
Total Net Position - Governmental Activities		\$ 160,016,477

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, 2013

	General Fund	Building Fund	Bond Interest and Redemption Fund
REVENUES			
Revenue limit sources	\$ 48,371,291	\$ -	\$ -
Federal sources	4,229,472	745,476	-
Other state sources	11,517,181	-	60,421
Other local sources	5,874,897	1,195,804	8,350,498
Total Revenues	<u>69,992,841</u>	<u>1,941,280</u>	<u>8,410,919</u>
EXPENDITURES			
Current			
Instruction	39,047,634	-	-
Instruction-related activities:			
Supervision of instruction	1,221,875	-	-
Instructional library, media and technology	197,886	-	-
School site administration	5,294,246	-	-
Pupil services:			
Home-to-school transportation	2,545,284	-	-
Food services	168	-	-
All other pupil services	2,713,818	-	-
General administration:			
Data processing	585,208	-	-
All other general administration	3,110,240	-	-
Plant services	5,290,461	-	-
Facility acquisition and construction	-	3,304,493	-
Ancillary services	438,252	-	-
Community services	3,231	-	-
Other outgo	3,823,337	-	-
Debt service	-	-	5,865,000
Principal	104,816	1,213,855	2,369,141
Interest and other	64,376,456	4,518,348	8,234,141
Total Expenditures	<u>64,376,456</u>	<u>4,518,348</u>	<u>8,234,141</u>
Excess (Deficiency) of			
Revenues Over Expenditures	<u>5,616,385</u>	<u>(2,577,068)</u>	<u>176,778</u>
Other Financing Sources (Uses):			
Transfers in	185,812	416,000	-
Other sources	-	55,000,000	1,926,008
Transfers out	(416,000)	-	-
Net Financing Sources (Uses)	<u>(230,188)</u>	<u>55,416,000</u>	<u>1,926,008</u>
NET CHANGE IN FUND BALANCES	<u>5,386,197</u>	<u>52,838,932</u>	<u>2,102,786</u>
Fund Balance - Beginning	<u>18,806,853</u>	<u>5,916,568</u>	<u>6,996,156</u>
Fund Balance - Ending	<u>\$ 24,193,050</u>	<u>\$ 58,755,500</u>	<u>\$ 9,098,942</u>

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

Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 48,371,291
1,777,748	6,752,696
1,196,868	12,774,470
4,107,804	19,529,003
<u>7,082,420</u>	<u>87,427,460</u>
473,317	39,520,951
-	1,221,875
-	197,886
233,549	5,527,795
-	2,545,284
2,563,257	2,563,425
-	2,713,818
-	585,208
135,703	3,245,943
460,747	5,751,208
811,536	4,116,029
-	438,252
-	3,231
-	3,823,337
-	5,865,000
-	3,687,812
<u>4,678,109</u>	<u>81,807,054</u>
<u>2,404,311</u>	<u>5,620,406</u>
-	601,812
-	56,926,008
(185,812)	(601,812)
<u>(185,812)</u>	<u>56,926,008</u>
2,218,499	62,546,414
4,982,205	36,701,782
<u>\$ 7,200,704</u>	<u>\$ 99,248,196</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, 2013

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

Total Net Change in Fund Balances - Governmental Funds	\$ 62,546,414
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 depreciation exceeds capital outlays in the period.	
Capital outlays	\$ 3,906,977
Depreciation expense	<u>(6,271,071)</u>
Net Expense Adjustment	(2,364,094)
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).	(11,144)
Proceeds received from sale of bonds is a revenue source in the governmental funds, but it increases long-term liabilities in the statement of net position and does not affect the statement of activities.	(56,926,008)
Payment of costs for issuance of bonds is an expenditure in the governmental funds, but is recorded as a deferred charge and amortized on the statement of net position over the life of the bonds.	460,697
Amortization of issuance cost is not recorded in the governmental funds, but it is amortized over the life of the bond in the statement of activities.	(139,931)
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.	(1,928,571)

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, 2013

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	808,779	
Amortization of discount of certificates of participation	<u>(13,840)</u>	
Net amortization		389,767

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.

5,865,000

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.

(277,207)

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.

Change in Net Position of Governmental Activities

(1,779,381)
\$ 5,835,542

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

MORGAN HILL UNIFIED SCHOOL DISTRICT

**FIDUCIARY FUND
STATEMENT OF NET POSITION
JUNE 30, 2013**

	<u>Agency Fund</u>
ASSETS	
Deposits and investments	\$ 815,841
Total Assets	<u>\$ 815,841</u>
LIABILITIES	
Due to student groups	\$ 815,841
Total Liabilities	<u>\$ 815,841</u>

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

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

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. For financial reporting purposes, the component unit has a financial and operational relationship which meets the reporting entity definition criteria of the Governmental Accounting Standard Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and thus are included in the financial statements of the District. 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, 2013

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 Postemployment 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.

As a result, the General Fund reflects an increase in assets, fund balance, and revenues of \$2,072,233, \$2,072,233, and \$11,596, respectively.

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, 2013

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

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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.

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

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

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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, 2013 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 \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized in the government-wide statement of net 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, 2013

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 Issuance Costs, Premiums and Discounts

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

Fund Balances - Governmental Funds

As of June 30, 2013, 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.

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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.

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.

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

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.

Changes in Accounting Principles

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net position by the government that is applicable to a future reporting period, and an acquisition of net position by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

The District has implemented the provisions of this Statement for the year ended June 30, 2013.

New Accounting Pronouncements

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process. Prior to the issuance of this Statement, only two such pronouncements have been issued. Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, requires the reporting of a deferred outflow of resources or a deferred inflow of resources for the changes in fair value of hedging derivative instruments, and Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, requires a deferred inflow of resources to be reported by a transferor government in a qualifying service concession arrangement. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations.

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Early implementation is encouraged.

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.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement.

The scope of this Statement addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts that have the following characteristics:

- Contributions from employers and non-employer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- Pension plan assets are legally protected from the creditors of employers, non-employer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared. Employers are classified in one of the following categories for purposes of this Statement:

- Single employers are those whose employees are provided with defined benefit pensions through single-employer pension plans — pension plans in which pensions are provided to the employees of only one employer (as defined in this Statement).
- Agent employers are those whose employees are provided with defined benefit pensions through agent multiple-employer pension plans — pension plans in which plan assets are pooled for investment purposes but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees.
- Cost-sharing employers are those whose employees are provided with defined benefit pensions through cost-sharing multiple-employer pension plans—pension plans in which the pension obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.

In addition, this Statement details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. This Statement also addresses circumstances in which a non-employer entity has a legal requirement to make contributions directly to a pension plan.

This Statement is effective for fiscal years beginning after June 15, 2014. Early implementation is encouraged.

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

NOTE 2 – DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2013, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 99,466,082
Fiduciary funds	815,841
Total Deposits and Investments	<u>\$ 100,281,923</u>

Deposits and investments as of June 30, 2013, consist of the following:

Cash on hand and in banks	\$ 1,047,625
Cash in revolving	20,500
Investments	99,213,798
Total Deposits and Investments	<u>\$ 100,281,923</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, 2013

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	\$ 2,383,217	\$ 2,383,235	4 years
Money Market	567,108	567,108	less than one year
County Pool	96,263,473	96,345,008	0.25 years
Total	<u>\$ 99,213,798</u>	<u>\$ 99,295,351</u>	

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

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	Moody Rating as of Year End	
		Aaa	Unrated
Natixis Guaranteed Investment Contract	\$ 2,383,235	\$ 2,383,235	\$ -
Money Market	567,108	-	567,108
County Pool	96,345,008	-	96,345,008
Total	<u>\$ 99,295,351</u>	<u>\$ 2,383,235</u>	<u>\$ 96,912,116</u>

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2013, the District's bank balance of \$483,141 was exposed to custodial credit risk because it was uninsured but 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, \$2,383,235 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, 2013

NOTE 3 - RECEIVABLES

Receivables at June 30, 2013, 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	\$ 1,430,350	\$ -	\$ -	\$ 55,743	\$ 1,486,093
State Government					
Apportionment	212,797	-	-	179,380	392,177
Categorical aid	1,878,232	-	-	-	1,878,232
Lottery	694,877	-	-	-	694,877
Local Government					
Interest	22,729	56,548	5,442	6,643	91,362
Other Local Sources	513,980	66,750	-	50,310	631,040
Total	<u>\$ 4,752,965</u>	<u>\$ 123,298</u>	<u>\$ 5,442</u>	<u>\$ 292,076</u>	<u>\$ 5,173,781</u>

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 7,467,149	\$ -	\$ -	\$ 7,467,149
Construction in progress	1,661,443	3,808,952	1,640,162	3,830,233
Total Capital Assets Not Being Depreciated	9,128,592	3,808,952	1,640,162	11,297,382
Capital Assets Being Depreciated:				
Buildings and improvements	236,278,550	1,640,162	-	237,918,712
Furniture and equipment	7,918,708	98,025	-	8,016,733
Total Capital Assets Being Depreciated	244,197,258	1,738,187	-	245,935,445
Total Capital Assets	253,325,850	5,547,139	1,640,162	257,232,827
Less Accumulated Depreciation:				
Buildings and improvements	50,019,085	5,574,199	-	55,593,284
Furniture and equipment	4,729,166	696,872	-	5,426,038
Total Accumulated Depreciation	54,748,251	6,271,071	-	61,019,322
Governmental Activities Capital Assets, Net	\$ 198,577,599	\$ (723,932)	\$ 1,640,162	\$ 196,213,505

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

Governmental Activities	
Instruction	\$ 3,822,258
Supervision of instruction	122,966
Instructional library, media, and technology	19,915
School site administration	556,300
Home-to-school transportation	256,149
Food services	257,975
All other pupil services	273,110
Ancillary services	44,104
Community services	325
Data processing	58,893
All other general administration	326,661
Plant services	532,415
Total Depreciation Expense All Activities	\$ 6,271,071

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

NOTE 5 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Due To	Due From
Non-major Governmental	General Fund
	\$ 85,812

Operating Transfers

Interfund transfers for the year ended June 30, 2013, consisted of the following:

Transfer Out	Transfer In	
	General Fund	Building Fund
General Fund	\$ -	\$ 416,000
Non-Major Governmental Funds	185,812	-
Total	\$ 185,812	\$ 416,000

General Fund transferred to Building Fund for payment of certificates of participation.	\$ 416,000
Adult Education Fund transferred to General Fund for tier III flexibility transfers.	100,000
Capital Facilities Fund transferred to General Fund for 3% administration fee.	85,812
Total	\$ 601,812

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2013, consisted of the following:

	General Fund	Building Fund	Non-Major Governmental Funds	Total
Vendor payables	\$ 1,859,995	\$ 1,550,078	\$ 138,545	\$ 3,548,618
State apportionment	358,861	-	169	359,030
Salaries and benefits	121,075	-	3,051	124,126
Total	\$ 2,339,931	\$ 1,550,078	\$ 141,765	\$ 4,031,774

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

NOTE 7 - DEFERRED REVENUE

Deferred revenue at June 30, 2013, consists of the following:

	General Fund
Federal financial assistance	\$ 26,039
Other local	1,365,435
Total	<u>\$ 1,391,474</u>

NOTE 8 - TAX AND REVENUE ANTICIPATION NOTES (TRANS)

On July 2, 2012, the District issued \$4,555,000 Tax and Revenue Anticipation Notes bearing interest at 2 percent. The notes were issued to supplement cash flows. Interest and principal were due and payable on June 1, 2013. By May 2013, the District had paid 100 percent of principal and interest for the sole purpose of satisfying the notes. The District was not required to make any additional payments on the notes. As the District has in substance defeased the debt, the tax anticipation notes of \$4,555,000 and related accrued interest and cash held in trust are not included in these financial statements.

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, 2012	Additions	Deductions	Balance June 30, 2013	Due in One Year
General obligation (GO) bonds	\$ 55,494,040	\$ 55,000,000	\$ 5,865,000	\$ 104,629,040	\$ 6,570,000
Accretions on GO bonds	7,888,968	1,928,571	-	9,817,539	-
Defeasance cost	(2,836,203)	-	(405,172)	(2,431,031)	(405,172)
Premium	5,661,455	1,926,008	808,779	6,778,684	872,979
Sub-Total	66,208,260	58,854,579	6,268,607	118,794,232	7,037,807
Certificates of participation	13,505,000	-	-	13,505,000	-
Discount on COPS	(207,593)	-	(13,840)	(193,753)	(13,840)
Accumulated vacation - net	296,232	11,144	-	307,376	-
Net OPEB obligations	1,478,447	2,447,916	668,535	3,257,828	-
	<u>\$ 81,280,346</u>	<u>\$ 61,313,639</u>	<u>\$ 6,923,302</u>	<u>\$ 135,670,683</u>	<u>\$ 7,023,967</u>

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

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

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, 2012	Issued / Accreted Interest	Redeemed	Bonds Outstanding June 30, 2013
2006	2020	3.50%-4.24%	\$ 68,180,000	\$46,720,000	\$ -	\$5,865,000	\$ 40,855,000
2006	2016	4.25%-4.42%	8,774,040	16,663,008	1,928,571	-	18,591,579
2012	2042	2.00%-3.25%	55,000,000	-	55,000,000	-	55,000,000
			<u>\$131,954,040</u>	<u>\$63,383,008</u>	<u>\$56,928,571</u>	<u>\$5,865,000</u>	<u>\$ 114,446,579</u>

Debt Service Requirements to Maturity

The bonds mature through 2043 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2014	\$ 6,570,000	\$ 3,648,927	\$ 10,218,927
2015	7,731,226	7,891,549	15,622,775
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
2019-2023	27,340,000	10,593,100	37,933,100
2024-2028	4,435,000	8,273,525	12,708,525
2029-2033	8,105,000	6,969,500	15,074,500
2034-2038	12,670,000	5,158,269	17,828,269
2039-2043	19,060,000	2,023,600	21,083,600
Total	<u>104,629,040</u>	<u>\$ 65,231,556</u>	<u>\$ 169,860,596</u>
Accretion to Date	9,817,539		
	<u>\$ 114,446,579</u>		

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2013 amounted to \$307,376.

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

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, 2013, the principal balance outstanding was \$13,505,000. The certificates mature through 2027 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2014	\$ -	\$ 958,855	\$ 958,855
2015	-	958,855	958,855
2016	-	958,855	958,855
2017	-	958,855	958,855
2018	-	958,855	958,855
2019-2023	-	4,794,275	4,794,275
2024-2027	13,505,000	3,835,420	17,340,420
Total	<u>\$ 13,505,000</u>	<u>\$ 13,423,970</u>	<u>\$ 26,928,970</u>

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

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
Nonspendable					
Revolving cash	\$ 14,500	\$ -	\$ -	\$ 6,000	\$ 20,500
Stores inventories	28,287	-	-	1,826	30,113
Prepaid expenditures	1,468	-	-	-	1,468
Total Nonspendable	44,255	-	-	7,826	52,081
Restricted					
Legally restricted programs	3,198,589	-	-	623,643	3,822,232
Capital projects	-	55,272,631	-	5,715,428	60,988,059
Debt services	-	-	9,098,942	-	9,098,942
Total Restricted	3,198,589	55,272,631	9,098,942	6,339,071	73,909,233
Committed					
Adult education program	-	-	-	325,111	325,111
Deferred maintenance program	-	-	-	528,696	528,696
Total Committed	-	-	-	853,807	853,807
Assigned					
Special reserve-non capital	1,513,014	-	-	-	1,513,014
Retiree benefits	559,219	-	-	-	559,219
Capital projects	-	3,482,869	-	-	3,482,869
Fair share reduction	3,126,497	-	-	-	3,126,497
Basic aid reserve	1,036,170	-	-	-	1,036,170
Various program carryover	2,710,704	-	-	-	2,710,704
Total Assigned	8,945,604	3,482,869	-	-	12,428,473
Unassigned					
Reserve for economic uncertainties	1,873,159	-	-	-	1,873,159
Remaining unassigned	10,131,443	-	-	-	10,131,443
Total Unassigned	12,004,602	-	-	-	12,004,602
Total	\$ 24,193,050	\$ 58,755,500	\$ 9,098,942	\$ 7,200,704	\$ 99,248,196

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

NOTE 11 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

Plan Description

The Postemployment Benefit Plan (the "Plan") is a single-employer defined benefit healthcare plan administered by the Morgan Hill Unified School District. The Plan provides medical and dental insurance benefits to eligible retirees. Membership of the Plan consists of 229 retirees currently receiving benefits and 742 active plan members. Board designated amount of the Plan is presented in these financial statements as the Retiree Benefits Special Reserve Fund. Excess portion of annual required contributions (net OPEB assets) is presented in the statement of net position as assets.

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 2012-2013, the District contributed \$668,535 to the plan, all of which was used for current premiums (approximately 38 percent of current year's annual required contribution). Plan members are paid a monthly administrative charge amount equal to \$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. This annual adjustment to the minimum monthly employer contribution for an annuitant authorized by this change cannot exceed one hundred dollars (\$100) per retiree per month. 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, instead of the administrative charge.

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	\$ 2,475,960
Interest on net OPEB obligation	79,934
Adjustment to annual required contribution	(107,978)
Annual OPEB cost (expense)	2,447,916
Contributions made	(668,535)
Increase in net OPEB obligation	1,779,381
Net OPEB obligation, beginning of year	1,478,447
Net OPEB obligation, end of year	\$ 3,257,828

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

Trend Information

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

Year Ended June 30,	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Obligations (Assets)
2013	\$ 2,447,916	\$ 668,535	27%	\$ 3,257,828
2012	2,555,669	960,440	38%	1,478,447
2011	570,773	559,300	98%	(116,782)

Funded Status and Funding Progress

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

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, 2011	\$ -	\$ 22,666,617	\$ 22,666,617	0%	\$ 40,673,421	55.73%

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.

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

In the July 1, 2011, 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. 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, 2013, the District's General Fund has assigned net position in the amount of \$559,219, which consisted of \$558,668 on deposit with the county treasurer and receivables in the amount of \$551.

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, 2013, 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 2013, 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, 2013**

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

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

CalSTRS

Plan Description

The District contributes to the California State Teachers' Retirement System (CalSTRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 100 Waterfront Place, West Sacramento, CA 95605.

Funding Policy

Active plan members are required to contribute 8.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2012-2013 was 5.17 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the fiscal years ending June 30, 2013, 2012, and 2011, were \$2,440,861, \$2,414,574, and \$2,693,510, respectively, and equal 100 percent of the required contributions for each year.

CalPERS

Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95811.

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

Funding Policy

Active plan members are required to contribute 7.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The Morgan Hill Unified School District pays the employee's portion of the CalPERS. The required employer contribution rate for fiscal year 2012-2013 was 11.417 percent of covered payroll. The contribution requirements of the plan members are established by State statute. The District's contributions of the employer's portion to CalPERS for the fiscal years ending June 30, 2013, 2012, and 2011, were \$1,084,315, \$979,258, and \$968,004, respectively, and equal 100 percent of the required contributions for each year.

Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by Social Security or an alternative plan. The District has elected to use 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 \$1,540,259, \$1,646,643, and \$1,393,116, for the fiscal years ending June 30, 2013, 2012 and 2011. 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.

Fiscal Year	Percent of Annual Payroll	General	Adult Education	Child Development	Total State Contribution
2012-13	5.170%	\$ 1,521,813	\$ 10,032	\$ 8,414	\$ 1,540,259
2011-12	4.854%	1,627,081	9,787	9,775	1,646,643
2010-11	4.267%	1,374,855	9,441	8,820	1,393,116

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, 2013.

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

Construction Commitments

As of June 30, 2013, the District had the following commitments with respect to the unfinished capital projects:

Capital Project	Remaining Construction Commitment	Expected Date of Completion
Burnett Modernization	\$ 4,438,287	6/2014
Martin Murphy Fence	65,200	9/2013
Charter Multipurpose Room	4,999,848	1/2016
	<u>\$ 9,503,335</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, 2013, the District made payment of \$677,321 for workers compensation insurance and \$489,488 for property liability coverage to the Santa Clara County Schools Insurance Group.

NOTE 16 - SUBSEQUENT EVENTS

The District issued \$3,810,000 of Tax and Revenue Anticipation Notes dated July 15, 2013. The notes mature on June 1, 2014, and yield 2 percent interest. The notes were sold to supplement cash flow. Repayment requirements are that a percentage of principal and interest be deposited with the Fiscal Agent each month beginning January, 2014, until 100 percent of principal and interest due is on account in May, 2014.

REQUIRED SUPPLEMENTARY INFORMATION

MORGAN HILL UNIFIED SCHOOL DISTRICT

GENERAL FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2013

	Budgeted Amounts		Actual	Variances - Favorable (Unfavorable)
	Original	Final		Final to Actual
REVENUES				
Revenue limit sources	\$ 44,256,650	\$ 44,236,303	\$ 48,371,291	\$ 4,134,988
Federal sources	3,774,496	4,868,211	4,229,472	(638,739)
Other state sources	9,410,064	9,921,929	9,995,368	73,439
Other local sources	5,220,772	5,939,598	5,863,301	(76,297)
Total Revenues¹	62,661,981	64,966,042	68,459,432	3,493,390
EXPENDITURES				
Current				
Certificated salaries	29,997,748	30,461,070	29,926,049	535,021
Classified salaries	9,468,661	9,714,605	9,307,803	406,802
Employee benefits	11,378,051	11,352,121	10,886,595	465,526
Books and supplies	3,254,207	5,852,423	2,638,163	3,214,260
Services and operating expenditures	6,635,044	7,860,156	6,408,399	1,451,757
Other outgo	3,933,285	3,829,821	3,687,634	142,187
Total Expenditures¹	64,666,996	69,070,196	62,854,643	6,215,553
Excess (Deficiency) of Revenues Over Expenditures	(2,005,015)	(4,104,155)	5,604,789	9,708,944
Other Financing Sources (Uses):				
Transfers in	118,000	151,000	185,812	34,812
Transfers out	(416,000)	(416,000)	(416,000)	-
Net Financing Sources (Uses)	(298,000)	(265,000)	(230,188)	34,812
NET CHANGE	(2,303,015)	(4,369,155)	5,374,601	9,743,756
IN FUND BALANCES	16,746,216	16,746,216	16,746,216	-
Fund Balance - Beginning	\$ 14,443,201	\$ 12,377,061	22,120,817	\$ 9,743,756
Fund Balance - Ending				
Special Reserve Fund for Other Than Capital Outlay			1,513,014	
Special Reserve Fund for Retiree Benefits			559,219	
Total			\$ 24,193,050	

¹ For comparison purposes, on behalf payments of \$1,521,813 has been excluded from this schedule.

MORGAN HILL UNIFIED SCHOOL DISTRICT

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING
PROGRESS**

FOR THE YEAR ENDED JUNE 30, 2013

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, 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%	41,743,655	13.29%
July 1, 2006	-	7,861,000	7,790,448	0%	44,526,102	17.50%

SUPPLEMENTARY INFORMATION

MORGAN HILL UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2013

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
Advanced Placement Test Fees	84.330B	14381	\$ 1,914
No Child Left Behind			
Title I - Basic Grants Low Income and Neglected	84.010	14981	984,999
Title I - Migrant Education	84.011	14326	254,172
Title I - Migrant Education Summer Program	84.011	10005	75,537
Title I - Part A, Program Improvement LEA	84.010	14955	449,676
Title II - Improving Teacher Quality	84.367	14341	182,479
Title III - Limited English Proficient (LEP) Student Program	84.365	14346	240,962
Title III - Immigrant Education Program	84.365	15146	9,483
Individuals with Disabilities Act (IDEA):			
Basic Local Assistance Entitlement	84.027	13379	1,694,938
IDEA, Part B, Section 611, Private Schools	84.027	10115	9,006
IDEA, Preschool Grants, Part B, Section 611	84.027A	13682	75,518
IDEA, Preschool Grants, Part B, Section 619	84.173	13430	43,332
IDEA, Mental Health Allocation Plan, Part B, Section 611	84.027A	14468	76,071
IDEA, Preschool Staff Development, Part B, Section 619	84.173A	13431	450
Carl Perkins Act:			
Vocational and Applied Technology	84.048	14894	57,252
Adult Education Act:			
Adult Basic Education	84.002A	14508	53,513
Adult Secondary Education	84.002	13978	31,539
English Literacy and Civics Education	84.002A	14109	19,612
Subtotal			<u>4,260,453</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through CDE:			
Child Nutrition Act			
National School Lunch Program	10.555	13391	1,149,957
Especially Needy Breakfast	10.553	13526	495,998
Meal Supplement	10.556	13568	27,128
Commodity Supplemental Food Program ¹	10.555	13524	158,321
Subtotal			<u>1,831,404</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through CDE:			
Medi-Cal Billing Option	93.778	10013	73,684
Total Expenditures of Federal Awards			<u>\$ 6,165,541</u>

¹ Not recorded in the financial statements.

See accompanying note to supplementary information.

MORGAN HILL UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2013

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>
Don Moody	President	2014
Shelle Thomas	Vice President	2014
Ron Woolf	Member	2014
Bob Benevento	Member	2016
Claudia Rossi	Member	2014
Rick Badillo	Member	2016
Amy Porter Jensen	Member	2016

ADMINISTRATION

Steve Betando	Interim Superintendent
Kirsten Perez	Assistant Superintendent of Business Services

See accompanying note to supplementary information.

MORGAN HILL UNIFIED SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE FOR THE YEAR ENDED JUNE 30, 2013

	P-2 Report	Annual Report
ELEMENTARY		
Kindergarten	652	652
First through third	1,864	1,867
Fourth through sixth	1,819	1,816
Seventh and eighth	1,160	1,158
Home and hospital	1	1
Special education	174	176
Total Elementary	5,670	5,670
SECONDARY		
Regular classes	2,449	2,436
Continuation education	127	126
Home and hospital	1	2
Special education	74	70
Total Secondary	2,651	2,634
Total K-12	8,321	8,304

See accompanying note to supplementary information.

MORGAN HILL UNIFIED SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME FOR THE YEAR ENDED JUNE 30, 2013

Grade Level	1982-83	Reduced	1986-87	Reduced	2012-13	Number of	Status
	Actual	1982-83	Minutes	1986-87	Actual	Days	
	Minutes	Actual	Requirement	Requirement	Minutes	Traditional	
		Minutes				Calendar	
Kindergarten	31,680	30,800	36,000	35,000	36,290	179	Complied
Grade 1	47,480	46,161	50,400	49,000	50,400	179	Complied
Grade 2	47,480	46,161	50,400	49,000	50,400	179	Complied
Grade 3	47,480	46,161	50,400	49,000	50,400	179	Complied
Grade 4	52,740	51,275	54,000	52,500	53,980	179	Complied
Grade 5	52,740	51,275	54,000	52,500	53,980	179	Complied
Grade 6	52,740	51,275	54,000	52,500	53,980	179	Complied
Grade 7	54,560	53,044	54,000	52,500	55,420	179	Complied
Grade 8	54,560	53,044	54,000	52,500	55,420	179	Complied
Grade 9	57,726	56,123	64,800	63,000	64,529	179	Complied
Grade 10	57,726	56,123	64,800	63,000	64,529	179	Complied
Grade 11	57,726	56,123	64,800	63,000	64,529	179	Complied
Grade 12	57,726	56,123	64,800	63,000	64,529	179	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, 2013

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

	General	Special Reserve Other	Special Reserve Retiree Benefits
FUND BALANCE			
Balance, June 30, 2013, Unaudited Actuals	\$ 22,120,817	\$ 1,513,014	\$ 559,219
As a result of the implementation of GASB Statement No. 54, Fund 17 and Fund 20 are combined into the financial statement.	2,072,233	(1,513,014)	(559,219)
Balance, June 30, 2013, Audited Financial Statement	<u>\$ 24,193,050</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, 2013

	(Budget) 2014 ¹	2013	2012	2011
GENERAL FUND ⁴				
Revenues	\$ 63,174,947	\$ 68,459,432	\$ 66,240,909	\$ 67,574,355
Transfers in	127,000	185,812	133,790	25,392
Total Revenues and Transfers In	63,301,947	68,645,244	66,374,699	67,599,747
Expenditures	64,606,008	62,854,643	63,513,602	65,774,455
Transfers out	416,000	416,000	916,000	200,000
Total Expenditures and Transfers Out	65,022,008	63,270,643	64,429,602	65,974,455
INCREASE (DECREASE) IN FUND BALANCE	\$ (1,720,061)	\$ 5,374,601	\$ 1,945,097	\$ 1,625,292
ENDING FUND BALANCE	\$ 20,400,756	\$ 22,120,817	\$ 16,746,216	\$ 14,801,119
AVAILABLE RESERVES ²	\$ 7,955,163	\$ 12,004,602	\$ 8,699,663	\$ 8,540,194
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO ³	12.23%	18.97%	13.50%	12.94%
LONG-TERM OBLIGATIONS	\$ 128,646,716	\$ 135,670,683	\$ 81,280,346	\$ 83,745,463
K-12 AVERAGE DAILY ATTENDANCE AT P-2	8,321	8,321	8,374	8,542

The General Fund balance has increased by \$7,319,698 over the past two years. The fiscal year 2013-2014 budget projects a decrease of \$1,720,061 (8 percent) in General Fund balance. For a district this size, the State recommends available reserves of at least 3 percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surplus in the past three years, but anticipates incurring an operating deficit during the 2013-2014 fiscal year. Total long-term obligations have increased by \$51,925,220 over the past two years.

Average daily attendance has decreased by 221 over the past two years. No ADA increase is anticipated during fiscal year 2013-2014.

¹ Budget 2014 is included for analytical purposes only and has not been subjected to audit.

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

³ On-behalf payments of \$1,521,813, \$1,627,081, and \$1,374,855 have been excluded from this schedule for fiscal year ending June 30, 2013, 2012 and 2011, respectively.

⁴ General Fund amounts does 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, 2013**

<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.

MORGAN HILL UNIFIED SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS COMBINING BALANCE SHEET JUNE 30, 2013

	Adult Education Fund	Child Development Fund	Cafeteria Fund
ASSETS			
Deposits and investments	\$ 133,925	\$ 14,558	\$ 560,864
Receivables	235,613	21,057	29,547
Stores inventories	-	-	1,826
Total Assets	<u>\$ 369,538</u>	<u>\$ 35,615</u>	<u>\$ 592,237</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 3,051	\$ 35,615	\$ 2,144
Due to other funds	-	-	-
Total Liabilities	<u>3,051</u>	<u>35,615</u>	<u>2,144</u>
Fund Balances:			
Nonspendable	5,000	-	2,826
Restricted	36,376	-	587,267
Committed	325,111	-	-
Total Fund Balances	<u>366,487</u>	<u>-</u>	<u>590,093</u>
Total Liabilities and Fund Balances	<u>\$ 369,538</u>	<u>\$ 35,615</u>	<u>\$ 592,237</u>

See accompanying note to supplementary information

Deferred Maintenance Fund	Capital Facilities Fund	Capital Projects Fund	Total Non-Major Governmental Funds
\$ 606,037	\$ 4,447,046	\$ 1,371,949	\$ 7,134,379
639	3,808	1,412	292,076
-	-	-	1,826
<u>\$ 606,676</u>	<u>\$ 4,450,854</u>	<u>\$ 1,373,361</u>	<u>\$ 7,428,281</u>

\$ 77,980	\$ -	\$ 22,975	\$ 141,765
-	85,812	-	85,812
<u>77,980</u>	<u>85,812</u>	<u>22,975</u>	<u>227,577</u>
-	-	-	7,826
-	4,365,042	1,350,386	6,339,071
528,696	-	-	853,807
<u>528,696</u>	<u>4,365,042</u>	<u>1,350,386</u>	<u>7,200,704</u>
<u>\$ 606,676</u>	<u>\$ 4,450,854</u>	<u>\$ 1,373,361</u>	<u>\$ 7,428,281</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, 2013

	Adult Education Fund	Child Development Fund	Cafeteria Fund
REVENUES			
Federal sources	\$ 104,664	\$ -	\$ 1,673,084
Other state sources	517,461	226,111	142,846
Other local sources	49,157	-	687,246
Total Revenues	<u>671,282</u>	<u>226,111</u>	<u>2,503,176</u>
EXPENDITURES			
Current			
Instruction	257,414	215,903	-
Instruction-related activities:			
School site administration	233,549	-	-
Pupil services:			
Food services	-	-	2,563,257
General administration:			
All other general administration	17,111	10,208	108,384
Plant services	15,298	-	-
Facility acquisition and construction	-	-	-
Total Expenditures	<u>523,372</u>	<u>226,111</u>	<u>2,671,641</u>
Excess (Deficiency) of Revenues Over Expenditures	147,910	-	(168,465)
Other Financing Uses:			
Transfers out	(100,000)	-	-
Net Financing Uses	<u>(100,000)</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	47,910	-	(168,465)
Fund Balance - Beginning	318,577	-	758,558
Fund Balance - Ending	<u>\$ 366,487</u>	<u>\$ -</u>	<u>\$ 590,093</u>

See accompanying note to supplementary information

Deferred Maintenance Fund	Capital Facilities Fund	Capital Projects Fund	Total Non-Major Governmental Funds
\$ -	\$ -	\$ -	\$ 1,777,748
310,450	-	-	1,196,868
2,941	2,875,009	493,451	4,107,804
<u>313,391</u>	<u>2,875,009</u>	<u>493,451</u>	<u>7,082,420</u>
-	-	-	473,317
-	-	-	233,549
-	-	-	2,563,257
-	-	-	135,703
373,677	69,982	1,790	460,747
-	111,803	699,733	811,536
<u>373,677</u>	<u>181,785</u>	<u>701,523</u>	<u>4,678,109</u>
(60,286)	2,693,224	(208,072)	2,404,311
-	(85,812)	-	(185,812)
-	(85,812)	-	(185,812)
(60,286)	2,607,412	(208,072)	2,218,499
588,982	1,757,630	1,558,458	4,982,205
<u>\$ 528,696</u>	<u>\$ 4,365,042</u>	<u>\$ 1,350,386</u>	<u>\$ 7,200,704</u>

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2013

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 Balance:		\$ 6,752,696
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	(745,476)
Commodities are not recorded on the financial statement.	10.555	158,321
Total Schedule of Expenditures of Federal Awards		<u>\$ 6,165,541</u>

Local Education Agency Organization Structure

This schedule provides information about the District's boundaries and schools operated, members of the governing board, and members of the administration.

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

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

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

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, 2013

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.

INDEPENDENT AUDITOR'S REPORTS



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

Board of Trustees
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, 2013, 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 2, 2013.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Davrinek, Trine, Day & Co., LLP

Palo Alto, California
December 2, 2013



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

Board of Trustees
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, 2013. 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, 2013.

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.

Lawrence, Thine, Day & Co., LLP

Palo Alto, California
December 2, 2013



INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Trustees
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 *Standards and Procedures for Audit of California K-12 Local Educational Agencies 2012-2013* that could have a direct and material effect on each of Morgan Hill Unified School District's State government programs as noted below for the year ended June 30, 2013.

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 *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2012-2013*. 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 opinion. Our audit does not provide a legal determination of Morgan Hill Unified School District's compliance with those requirements.

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, 2013.

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 in Audit Guide</u>	<u>Procedures Performed</u>
Attendance Accounting:		
Attendance Reporting	6	Yes
Teacher Certification and Misassignments	3	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	Yes
Continuation Education	10	Yes
Instructional Time:		
School Districts	6	Yes
County Offices of Education	3	Not Applicable
Instructional Materials:		
General Requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	Not Applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Juvenile Court Schools	8	Not Applicable
Class Size Reduction Program (including in charter schools):		
General Requirements	7	Yes
Option One Classes	3	Yes
Option Two Classes	4	Not Applicable
Districts or Charter Schools With Only One School Serving K-3	4	Not Applicable
After School Education and Safety Program:		
General Requirements	4	Yes
After School	5	Yes
Before School	6	Not Applicable
Charter Schools:		
Contemporaneous Records of Attendance	1	Not Applicable
Mode of Instruction	1	Not Applicable
Non Classroom-Based Instruction/Independent Study	15	Not Applicable
Determination of Funding for Non Classroom-Based Instruction	3	Not Applicable
Annual Instruction Minutes Classroom-Based	4	Not Applicable

Davrinek, Trine, Day & Co., LLP

Palo Alto, California
December 2, 2013

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MORGAN HILL UNIFIED SCHOOL DISTRICT

SUMMARY OF AUDITOR'S RESULTS FOR THE YEAR ENDED JUNE 30, 2013

FINANCIAL STATEMENTS

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

Material weaknesses identified?

No

Significant deficiencies identified?

None reported

Noncompliance material to financial statements noted?

No

FEDERAL AWARDS

Internal control over major programs:

Material weaknesses identified?

No

Significant deficiencies identified?

None reported

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

Unmodified

Any audit findings disclosed that are required to be reported in accordance with

No

Section .510(a) of OMB A-133

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

84.010

Title I, Part A

84.027

Special Education Cluster

Dollar threshold used to distinguish between Type A and Type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

Yes

STATE AWARDS

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

Unmodified

MORGAN HILL UNIFIED SCHOOL DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013**

None reported.

MORGAN HILL UNIFIED SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013**

None reported.

MORGAN HILL UNIFIED SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013**

None reported.

MORGAN HILL UNIFIED SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013**

None reported.