

**MORGAN HILL UNIFIED
SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
JUNE 30, 2012**

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

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, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2011-2012*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to previously 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, 2012, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2012, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as management's discussion and analysis, schedule of finding progress for Other Postemployment Benefits and budgetary comparison information 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's 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 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Lawrence, Trine, Day & Co., LLP

Palo Alto, California
November 29, 2012

MORGAN HILL UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

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, 2012. 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 2011-12 general fund expenditures and other financing uses totaled \$66.1 million.
- Long-term liabilities on outstanding general obligation bonds decreased by \$3.9 million due to combination of \$5.6 million payments and \$1.7 accreted interest in the current year.
- At June 30, 2012, the District had available reserves of \$8.7 million in the general fund representing a reserve of 13.5% 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.

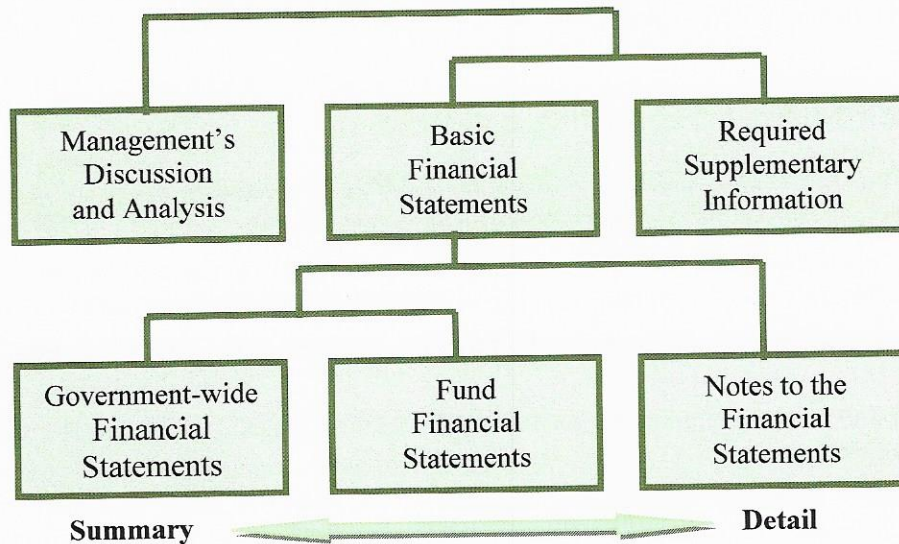
MORGAN HILL UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

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 Assets 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, 2012

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Assets 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 assets includes all the District's assets and liabilities using the accrual basis of accounting. This basis of accounting takes into accounts 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 2011-2012?"

These two statements report the School District's net assets and changes in those assets. This change in net assets 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 assets, 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, 2012

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

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

The School District as a Whole

The District's net assets were \$150.0 million at June 30, 2011. Of this amount \$15.8 million was unrestricted. For the period ending June 30, 2012, the District's net assets increased to \$154.2 million, or 2.81% increase. Of this amount \$16.1 million was unrestricted (see Table 1).

(Table 1)
Comparative Statement of Net Assets

	Governmental Activities	
	2012	2011
Deposits and investments	\$ 30,468,786	\$ 27,985,531
Receivables	9,077,621	7,998,154
Deferred charges	1,144,046	1,265,696
Stores inventory	43,679	48,273
Other postemployment assets	-	116,782
Capital assets	198,577,599	200,462,297
Total Assets	239,311,731	237,876,733
Accounts payable and other current liabilities	3,049,622	2,912,174
Deferred revenue	800,828	1,250,472
Long-term liabilities	81,280,346	83,745,463
Total Liabilities	85,130,796	87,908,109
Net assets		
Invested in capital assets, net of related debt	124,988,500	122,760,463
Restricted	13,132,649	11,422,881
Unrestricted	16,059,786	15,785,280
Total Net Assets	\$ 154,180,935	\$ 149,968,624

MORGAN HILL UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

The District's net asset position increased by \$4,212,311 for this fiscal year (see Table 2). The District's expenses for instruction and pupil services represented 79 percent of total expenses. The purely administrative activities of the District account for just 5 percent of total costs. The remaining 16 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 Change in Net Assets

	Governmental Activities	
	2012	2011
Revenues		
Program revenues:	\$ 17,409,018	\$ 16,713,652
General revenues:		
Taxes levied for general purposes	40,103,226	40,267,195
Taxes levied for debt service	7,891,198	8,023,643
Taxes levied for other specific purpose	1,118,783	943,955
Federal and state aid not restricted to specific purposes	12,495,324	12,853,111
Interest and investment earnings	269,586	219,966
Miscellaneous	4,043,678	10,834,936
Total Revenues	83,330,813	89,856,458
Expenses		
Instruction	44,648,060	47,694,932
Instruction related services	8,499,856	7,980,988
Pupil support services	8,890,199	8,433,848
General administration	4,071,792	4,094,765
Plant services	3,483,790	6,340,503
Other	9,524,805	8,523,001
Total Expenses	79,118,502	83,068,037
Increase In Net Assets	\$ 4,212,311	\$ 6,788,421

MORGAN HILL UNIFIED SCHOOL DISTRICT

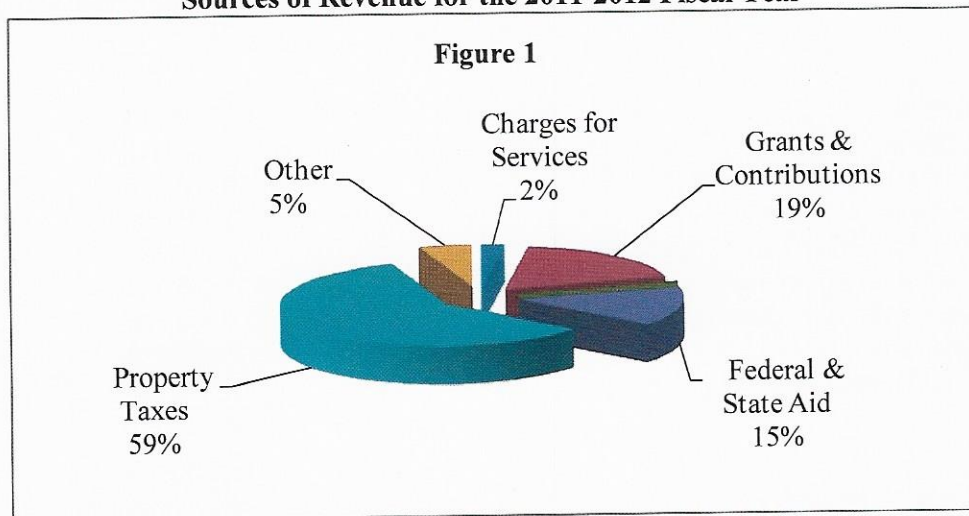
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

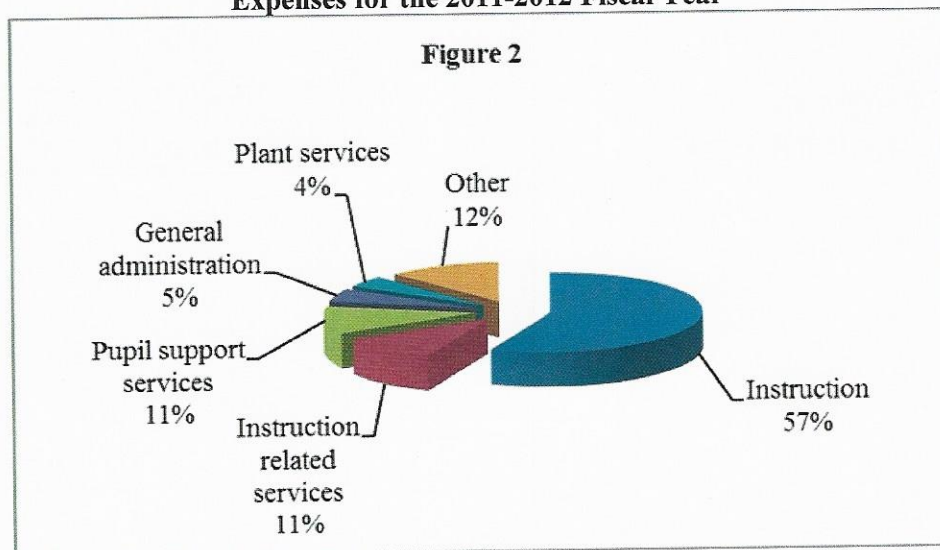
Governmental Activities

As reported in the Statement of Activities, the cost of all the District's governmental activities this year was \$79.1 million. The amount that our local taxpayers financed for these activities through property taxes was \$49.1 million. Federal and State aid not restricted to specific purposes total \$12.5 million. State and Federal Categorical program revenues which include charges for services and sales of \$1.9 million and operating grants and contributions of \$15.5 million totaling over \$17.4 million, or 21% of the revenue of the entire District (See Figure 1).

Sources of Revenue for the 2011-2012 Fiscal Year



Expenses for the 2011-2012 Fiscal Year



MORGAN HILL UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

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 \$36.7 million, an increase of \$3.8 million from the previous fiscal year. This increase is primarily the result the General Fund balance increasing \$2.0 million as a result of reduced expenditures.

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 \$18.8 million. The State recommends an ending reserve for economic uncertainties of 3%. The District's ending reserve for economic uncertainty was 3%.

MORGAN HILL UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of the 2011-2012 fiscal year, the District had investments of \$253.3 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 \$198.6 million at June 30, 2012 which is a decrease of \$1.9 million from the previous year.

(Table 3)
Comparative Schedule of Capital Assets
(net of depreciation)
June 30, 2012 and 2011

	2012	2011	Difference	Percentage Change
Land	\$ 7,467,149	\$ 7,467,149	\$ -	0.0%
Buildings and improvements	186,259,465	190,667,726	(4,408,261)	-2.3%
Machinery and equipment	3,189,542	2,327,422	862,120	37.0%
Work in progress	1,661,443	-	1,661,443	100.0%
Totals	\$ 198,577,599	\$ 200,462,297	\$ (1,884,698)	-0.9%

Long-Term Obligations

As of June 30, 2012, the District had \$81.2 million in long-term obligations outstanding.

(Table 4)
Comparative Schedule of Outstanding Debt
June 30, 2012 and 2011

	2012	2011
General obligation bonds (Including premiums, accretions and defeasance costs)	\$ 66,208,260	\$ 70,099,420
Certificates of participation	13,297,407	13,283,567
Compensated absences	296,232	362,506
Net OPEB obligation	1,478,447	(116,782)
Totals	\$ 81,280,346	\$ 83,628,711

MORGAN HILL UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

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.
- **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. 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 2011-12 school year, expenditures of \$960,440 were recognized for retiree's 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 student's needs and capabilities.

MORGAN HILL UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

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 third year in a row. The chart below depicts actual ADA for 2007-2012.

<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>2011-2012</u>
Elementary	5,738.38	5,825.40	5,939.36	5,858.56	5,808.59	5,688.00
High School	2,729.65	2,769.16	2,812.69	2,821.06	2,733.02	2,686.00
Total ADA	8,468.03	8,594.56	8,752.05	8,679.62	8,541.61	8,374.00
ADA Change	137.34	126.53	157.49	(72.43)	(138.01)	(168.00)
% Change	1.65%	1.49%	1.83%	-0.83%	-1.59%	-1.97%

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 Kirsten Perez, Director of Fiscal Services, Morgan Hill Unified School District, 15600 Concord Circle, Morgan Hill, CA 95037.

MORGAN HILL UNIFIED SCHOOL DISTRICT

STATEMENT OF NET ASSETS JUNE 30, 2012

	Governmental Activities
ASSETS	
Deposits and investments	\$ 30,468,786
Receivables	9,077,621
Deferred charges	1,144,046
Stores inventories	43,679
Capital assets not depreciated	9,128,592
Capital assets, net of accumulated depreciation	189,449,007
Total Assets	239,311,731
LIABILITIES	
Accounts payable	2,087,476
Interest payable	962,146
Deferred revenue	800,828
Current portion of long-term obligations	6,254,767
Noncurrent portion of long-term obligations	75,025,579
Total Liabilities	85,130,796
NET ASSETS	
Invested in capital assets, net of related debt	124,988,500
Restricted for:	
Legally restricted	3,782,551
Debt service	6,034,010
Capital projects	3,316,088
Unrestricted	16,059,786
Total Net Assets	\$ 154,180,935

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, 2012

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction	\$ 44,648,060	\$ 21,468	\$ 7,868,503	\$ (36,758,089)
Instruction-related activities:				
Supervision of instruction	1,653,196	511	781,924	(870,761)
Instructional library and technology	229,400	-	4,014	(225,386)
School site administration	6,617,260	1,695	566,150	(6,049,415)
Pupil services:				
Home-to-school transportation	3,038,205	172,232	1,601,850	(1,264,123)
Food services	2,857,009	732,612	1,863,400	(260,997)
All other pupil services	2,994,985	2,524	761,201	(2,231,260)
General administration:				
Data processing	766,502	-	140	(766,362)
All other general administration	3,305,290	41,241	519,196	(2,744,853)
Plant services	3,483,790	24,774	18,648	(3,440,368)
Ancillary services	775,035	-	-	(775,035)
Community services	7,385	-	-	(7,385)
Interest on long-term obligations	4,883,089	-	-	(4,883,089)
Other outgo	3,859,296	864,822	1,562,113	(1,432,361)
Total Governmental-Type Activities	\$ 79,118,502	\$ 1,861,879	\$ 15,547,139	(61,709,484)
General revenues and subventions:				
Property taxes, levied for general purposes				40,103,226
Property taxes, levied for debt service				7,891,198
Taxes levied for other specific purposes				1,118,783
Federal and state aid not restricted to specific purposes				12,495,324
Interest and investment earnings				269,586
Interagency revenues				96,205
Miscellaneous				3,947,473
Subtotal, General Revenues				65,921,795
Change in Net Assets				4,212,311
Net Assets - Beginning				149,968,624
Net Assets - Ending				\$ 154,180,935

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, 2012

	General Fund	Building Fund	Bond Interest and Redemption Fund
ASSETS			
Deposits and investments	\$ 13,298,815	\$ 5,789,462	\$ 6,990,522
Receivables	8,460,620	5,227	5,634
Due from other funds	-	500,000	-
Stores inventories	41,807	-	-
Total Assets	<u>\$ 21,801,242</u>	<u>\$ 6,294,689</u>	<u>\$ 6,996,156</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 1,693,558	\$ 378,121	\$ -
Due to other funds	500,003	-	-
Deferred revenue	800,828	-	-
Total Liabilities	<u>2,994,389</u>	<u>378,121</u>	<u>-</u>
Fund Balances:			
Nonspendable	56,307	-	-
Restricted	1,843,571	5,916,568	6,996,156
Committed	-	-	-
Assigned	8,207,312	-	-
Unassigned	8,699,663	-	-
Total Fund Balances	<u>18,806,853</u>	<u>5,916,568</u>	<u>6,996,156</u>
Total Liabilities and Fund Balances	<u>\$ 21,801,242</u>	<u>\$ 6,294,689</u>	<u>\$ 6,996,156</u>

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

Non Major Governmental Funds	Total Governmental Funds
\$ 4,389,987	\$ 30,468,786
606,140	9,077,621
3	500,003
1,872	43,679
<u>\$ 4,998,002</u>	<u>\$ 40,090,089</u>

\$ 15,797	\$ 2,087,476
-	500,003
-	800,828
<u>15,797</u>	<u>3,388,307</u>

7,872	64,179
4,108,150	18,864,445
866,183	866,183
-	8,207,312
-	8,699,663
<u>4,982,205</u>	<u>36,701,782</u>
<u>\$ 4,998,002</u>	<u>\$ 40,090,089</u>

MORGAN HILL UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS JUNE 30, 2012

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

Total Fund Balance - Governmental Funds		\$ 36,701,782
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	\$ 253,325,850	
Accumulated depreciation is	<u>(54,748,251)</u>	
Net Capital Assets		198,577,599
Expenditures relating to issuance of long-term debt were recognized on modified accrual basis, but are not capitalized on the statement of net assets.		1,144,046
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.		(962,146)
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	66,208,260	
COP payable	13,297,407	
Compensated absences (vacations)	296,232	
Net OPEB obligation	<u>1,478,447</u>	
Total Long-Term Liabilities		(81,280,346)
Total Net Assets - Governmental Activities		<u>\$ 154,180,935</u>

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, 2012

	General Fund	Building Fund	Bond Interest and Redemption Fund
REVENUES			
Revenue limit sources	\$ 45,065,357	\$ -	\$ -
Federal sources	5,166,206	745,476	-
Other state sources	11,247,364	-	56,222
Other local sources	6,403,591	1,274,012	7,850,754
Total Revenues	<u>67,882,518</u>	<u>2,019,488</u>	<u>7,906,976</u>
EXPENDITURES			
Current			
Instruction	39,173,870	-	-
Instruction-related activities:			
Supervision of instruction	1,455,872	-	-
Instructional library, media and technology	200,395	-	-
School site administration	5,594,960	-	-
Pupil services:			
Home-to-school transportation	2,677,130	-	-
Food services	1,505	-	-
All other pupil services	2,642,657	-	-
General administration:			
Data processing	684,149	-	-
All other general administration	2,855,444	-	-
Plant services	5,389,353	-	-
Facility acquisition and construction	-	1,741,188	-
Ancillary services	466,395	-	-
Community services	6,653	-	-
Other outgo	3,859,296	-	-
Debt service	-	-	5,215,000
Principal	-	-	-
Interest and other	133,004	958,855	2,440,516
Total Expenditures	<u>65,140,683</u>	<u>2,700,043</u>	<u>7,655,516</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>2,741,835</u>	<u>(680,555)</u>	<u>251,460</u>
Other Financing Sources (Uses):			
Transfers in	133,790	916,000	-
Transfers out	(916,000)	-	-
Net Financing Sources (Uses)	<u>(782,210)</u>	<u>916,000</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>1,959,625</u>	<u>235,445</u>	<u>251,460</u>
Fund Balance - Beginning	<u>16,847,228</u>	<u>5,681,123</u>	<u>6,744,696</u>
Fund Balance - Ending	<u>\$ 18,806,853</u>	<u>\$ 5,916,568</u>	<u>\$ 6,996,156</u>

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

Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 45,065,357
1,880,345	7,792,027
1,185,985	12,489,571
2,455,501	17,983,858
<u>5,521,831</u>	<u>83,330,813</u>
461,197	39,635,067
-	1,455,872
-	200,395
230,344	5,825,304
-	2,677,130
2,524,265	2,525,770
-	2,642,657
-	684,149
141,161	2,996,605
311,583	5,700,936
404,343	2,145,531
-	466,395
-	6,653
-	3,859,296
-	5,215,000
-	3,532,375
<u>4,072,893</u>	<u>79,569,135</u>
<u>1,448,938</u>	<u>3,761,678</u>
-	1,049,790
(133,790)	(1,049,790)
<u>(133,790)</u>	<u>-</u>
1,315,148	3,761,678
3,667,057	32,940,104
<u>\$ 4,982,205</u>	<u>\$ 36,701,782</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, 2012

Total Net Change in Fund Balances - Governmental Funds		\$ 3,761,678
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures; however, for governmental activities, those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which depreciation exceeds capital outlays in the period.		
Capital outlays	\$ 4,454,183	
Depreciation expense	<u>(6,338,881)</u>	
Net Expense Adjustment		(1,884,698)
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).		
		66,274
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.		
		(121,650)
Amortization of premium, discount and defeasance cost of long-term liabilities is not recognized in the governmental funds. In the government-wide statements, it is deferred and amortized over the life of the related debt in the statement of activities.		
		389,767
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.		
		(1,727,477)
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 assets and does not affect the statement of activities.		
		5,215,000

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, 2012

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.

108,646

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

(1,595,229)

Change in Net Assets of Governmental Activities

\$ 4,212,311

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

MORGAN HILL UNIFIED SCHOOL DISTRICT

FIDUCIARY FUND STATEMENT OF NET ASSETS JUNE 30, 2012

	Agency Funds
ASSETS	
Deposits and investments	\$ 648,244
Total Assets	<u>\$ 648,244</u>
LIABILITIES	
Due to student groups	\$ 648,244
Total Liabilities	<u>\$ 648,244</u>

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

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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, 2012

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 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 \$2,060,637, \$2,060,637, and \$14,528, 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 established to account for the proceeds from specific revenue sources (other than trusts, major capital projects, or debt service) that are restricted or committed to the financing of particular activities 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).

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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.

Capital Project Funds The Capital Project funds are used to account for and report 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.

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

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

Fund Financial Statements Fund financial statements report detailed information about the District. The focus of governmental 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.

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, and typically paid within 90 days. Principal and interest on long-term obligations, which 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, 2012 with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and state investment pools are determined by the program sponsor.

Stores Inventories

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

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. Capital assets are long-lived assets of the District. The District maintains a capitalization threshold of \$20,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized in the government-wide statement of net assets. 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.

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

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 assets.

Compensated Absences

Compensated absences are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide statement of net assets. 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 assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method.

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Fund Balances - Governmental Funds

As of June 30, 2012, fund balances of the governmental funds are classified as follows:

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

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

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

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

Unassigned - all other spendable amounts.

Spending Order Policy

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

Net Assets

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

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Interfund Activity

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

Estimates

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

Budgetary Data

The budgetary process is prescribed by provisions of the California Education Code and requires the governing board to hold a public hearing and adopt an operating budget no later than July 1st 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.

New Accounting Pronouncements

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of GASB Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. Early implementation is encouraged. Adoption of the statement is not expected to materially impact the District's financial statements.

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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 assets by the government that is applicable to a future reporting period, and an acquisition of net assets 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. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier implementation is encouraged.

In March 2012, the GASB issued Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier implementation is encouraged.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of 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 is effective for fiscal years beginning after June 15, 2014. Earlier implementation is encouraged.

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

NOTE 2 – DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2012, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 30,468,786
Fiduciary funds	648,244
Total Deposits and Investments	<u>\$ 31,117,030</u>

Deposits and investments as of June 30, 2012, consist of the following:

Cash on hand and in banks	\$ 680,987
Investments	30,436,043
Total Deposits and Investments	<u>\$ 31,117,030</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, 2012

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	\$ 1,588,824	\$ 1,558,824	5 years
Money Market	631,483	661,483	0 years
County Pool	28,215,736	28,323,240	1.25 years
Total	<u>\$ 30,436,043</u>	<u>\$ 30,543,547</u>	

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

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	\$ 1,558,824	\$ 1,558,824	\$ -
Money Market	661,483	-	661,483
County Pool	28,323,240	-	28,323,240
Total	<u>\$ 30,543,547</u>	<u>\$ 1,558,824</u>	<u>\$ 28,984,723</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, 2012, the District's bank balance of \$391,443 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. All the investment in the District is exposed to custodial credit risk because the related securities are uninsured, unregistered and held by the county pool which is also the counterparty for these securities.

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE 3 - RECEIVABLES

Receivables at June 30, 2012, 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	\$ 757,099	\$ -	\$ -	\$ 406,922	\$ 1,164,021
State Government					
Apportionment	5,825,580	-	-	192,434	6,018,014
Categorical aid	957,302	-	-	61	957,363
Lottery	662,925	-	-	-	662,925
Local Government					
Interest	31,514	5,227	5,634	6,653	49,028
Other Local Sources	226,200	-	-	70	226,270
Total	<u>\$ 8,460,620</u>	<u>\$ 5,227</u>	<u>\$ 5,634</u>	<u>\$ 606,140</u>	<u>\$ 9,077,621</u>

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 7,467,149	\$ -	\$ -	\$ 7,467,149
Construction in progress	-	2,085,730	424,287	1,661,443
Total Capital Assets Not Being Depreciated	7,467,149	2,085,730	424,287	9,128,592
Capital Assets Being Depreciated:				
Buildings and improvements	235,854,263	424,287	-	236,278,550
Furniture and equipment	5,550,255	2,368,453	-	7,918,708
Total Capital Assets Being Depreciated	241,404,518	2,792,740	-	244,197,258
Total Capital Assets	248,871,667	4,878,470	424,287	253,325,850
Less Accumulated Depreciation:				
Buildings and improvements	45,186,537	4,832,548	-	50,019,085
Furniture and equipment	3,222,833	1,506,333	-	4,729,166
Total Accumulated Depreciation	48,409,370	6,338,881	-	54,748,251
Governmental Activities Capital Assets, Net	\$ 200,462,297	\$ (1,460,411)	\$ 424,287	\$ 198,577,599

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

Governmental Activities	\$ 4,190,496
Instruction	160,556
Supervision of instruction	22,100
Instructional library, media, and technology	642,423
School site administration	295,238
Home-to-school transportation	278,546
Food services	291,436
All other pupil services	51,435
Ancillary services	732
Community services	75,448
Data processing	330,471
All other general administration	
Total Depreciation Expense All Activities	\$ 6,338,881

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE 5 – INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Due To	Due From	
	Building Fund	Non-major Governmental
General Fund	\$ 500,000	\$ 3
		Total
		\$ 500,003

Operating Transfers

Interfund transfers for the year ended June 30, 2012, consisted of the following:

Transfer Out	Transfer In	
	General Fund	Building Fund
General Fund	\$ -	\$ 916,000
Non-Major Governmental Funds	133,790	-
Total	\$ 133,790	\$ 916,000
		Total
		\$ 1,049,790

General Fund transferred to Building Fund for payment of COPS.	\$ 916,000
Adult Education Fund transferred to General Fund for tier III flex.	100,000
Capital Facilities Fund transferred to General Fund for 3% administration fee.	33,790
Total	\$ 1,049,790

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2012, consisted of the following:

	General Fund	Building Fund	Non-Major Governmental Funds	Total
Vendor payables	\$ 1,145,346	\$ 378,121	\$ 15,740	\$ 1,539,207
State apportionment	458,550	-	-	458,550
Salaries and benefits	89,662	-	57	89,719
Total	\$ 1,693,558	\$ 378,121	\$ 15,797	\$ 2,087,476

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

NOTE 7 - DEFERRED REVENUE

Deferred revenue at June 30, 2012, consists of the following:

	General Fund
Federal financial assistance	\$ 179,644
Other local	621,184
Total	<u>\$ 800,828</u>

NOTE 8 - TAX AND REVENUE ANTICIPATION NOTES (TRANS)

On July 1, 2011, the District issued \$5,825,000 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, 2012. By May 2012, 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 \$5,825,000 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, 2011	Additions	Deductions	Balance June 30, 2012	Due in One Year
General obligation (GO) bonds	\$ 60,709,040	\$ -	\$ 5,215,000	\$ 55,494,040	\$ 5,865,000
Accretions on GO bonds	6,161,491	1,727,477	-	7,888,968	-
Defeasance cost	(3,241,375)	-	(405,172)	(2,836,203)	(405,172)
Premium	6,470,234	-	808,779	5,661,455	808,779
Sub-Total	70,099,390	1,727,477	5,618,607	66,208,260	6,268,607
Certificates of participation	13,505,000	-	-	13,505,000	-
Discount on COPS	(221,433)	-	(13,840)	(207,593)	(13,840)
Accumulated vacation - net	362,506	-	66,274	296,232	-
Net OPEB obligations	(116,782)	2,555,669	960,440	1,478,447	-
	<u>\$ 83,628,681</u>	<u>\$ 4,283,146</u>	<u>\$ 6,631,481</u>	<u>\$ 81,280,346</u>	<u>\$ 6,254,767</u>

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

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date (August 1)	Interest Rate	Original Issue	Bonds Outstanding July 1, 2011	Accreted Interest	Redeemed	Bonds Outstanding June 30, 2012
2006	2020	3.50%-4.24%	\$ 68,180,000	\$ 51,935,000	\$ -	\$ 5,215,000	\$ 46,720,000
2006	2016	4.25%-4.42%	8,774,040	14,935,531	1,727,477	-	16,663,008
			<u>\$ 76,954,040</u>	<u>\$ 66,870,531</u>	<u>\$ 1,727,477</u>	<u>\$ 5,215,000</u>	<u>\$ 63,383,008</u>

Debt Service Requirements to Maturity

The bonds mature through 2021 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2013	\$ 5,865,000	\$ 2,162,525	\$ 8,027,525
2014	6,570,000	1,851,650	8,421,650
2015	3,071,226	5,941,174	9,012,400
2016	2,923,802	6,543,598	9,467,400
2017	2,779,012	7,158,388	9,937,400
2018-2021	34,285,000	3,112,750	37,397,750
Total	<u>55,494,040</u>	<u>\$ 26,770,085</u>	<u>\$ 82,264,125</u>
Accretion to Date	7,888,968		
	<u>\$ 63,383,008</u>		

Certificates of Participation

In May 2011, the Morgan Hill Unified school district issued certificates of participation in the amount of \$13,505,000 with interest rates ranging from 2 to 7.1 percent. As of June 30, 2012, the principal balance outstanding was \$13,505,000. The certificates mature through 2027 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2013	\$ -	\$ 958,855	\$ 958,855
2014	-	958,855	958,855
2015	-	958,855	958,855
2016	-	958,855	958,855
2017	-	958,855	958,855
2018-2022	-	4,794,275	4,794,275
2023-2027	13,505,000	4,794,275	18,299,275
Total	<u>\$ 13,505,000</u>	<u>\$ 14,382,825</u>	<u>\$ 27,887,825</u>

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2012 amounted to \$296,232.

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	41,807	-	-	1,872	43,679
Total Nonspendable	56,307	-	-	7,872	64,179
Restricted					
Legally restricted programs	1,843,571	-	-	792,062	2,635,633
Capital projects	-	5,916,568	-	3,316,088	9,232,656
Debt services	-	-	6,996,156	-	6,996,156
Total Restricted	1,843,571	5,916,568	6,996,156	4,108,150	18,864,445
Committed					
Adult education program	-	-	-	277,201	277,201
Deferred maintenance program	-	-	-	588,982	588,982
Total Committed	-	-	-	866,183	866,183
Assigned					
Special reserve-non Capital	1,504,548	-	-	-	1,504,548
Retiree benefits	556,089	-	-	-	556,089
Other assignments	6,146,675	-	-	-	6,146,675
Total Assigned	8,207,312	-	-	-	8,207,312
Unassigned					
Reserve for economic uncertainties	1,932,889	-	-	-	1,932,889
Remaining unassigned	6,766,774	-	-	-	6,766,774
Total Unassigned	8,699,663	-	-	-	8,699,663
Total	\$ 18,806,853	\$ 5,916,568	\$ 6,996,156	\$ 4,982,205	\$ 36,701,782

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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 assets 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 2011-2012, the District contributed \$960,440 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 (Asset)

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

Annual required contribution	\$ 2,553,339
Interest on net OPEB asset	(5,255)
Adjustment to annual required contribution	7,585
Annual OPEB cost (expense)	2,555,669
Contributions made	(960,440)
Increase in net OPEB obligation	1,595,229
Net OPEB asset, beginning of year	(116,782)
Net OPEB obligation, end of year	\$ 1,478,447

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

Trend Information

Trend information for annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB asset for 2012 is as follows:

Year Ended June 30,	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Oligations (Assets)
2012	\$ 2,555,669	\$ 960,440	38%	\$ 1,478,447
2011	570,773	559,300	98%	(116,782)
2010	581,095	638,798	110%	(128,255)

Funded Status and Funding Progress

Aschedule 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) - Frozen Entry Age (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	\$ -	\$ 21,213,837	\$ 21,213,837	0%	\$ 39,862,026	53.22%

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

Actuarial Methods and Assumptions

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

In the July 1, 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, 2012, was 26 years. At June 30, 2012, the District's General Fund has assigned net assets in the amount of \$556,089, which consisted of \$555,222 on deposit with the county treasurer and receivables in the amount of \$867.

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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, 2012, 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 2012, 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, 2012

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, 7919 Folsom Blvd., Sacramento, CA 95826.

Funding Policy

Active plan members are required to contribute 8.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2011-2012 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the fiscal years ending June 30, 2012, 2011, and 2010, were \$2,414,574, \$2,693,510, and \$2,798,684, 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, 2012

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 2011-2012 was 10.923 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, 2012, 2011, and 2010, were \$979,258, \$968,004, and \$894,490, 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 \$1,646,643, \$1,393,116, and \$1,447,512, for the fiscal years ending June 30, 2012, 2011 and 2010. 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
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
2009-10	4.267%	1,412,241	14,974	50,297	1,477,512

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, 2012.

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

Construction Commitments

As of June 30, 2012, the District had the following commitments with respect to the unfinished capital projects:

Capital Project	Remaining Construction Commitment	Expected Date of Completion
Live Oak Girls Locker Room	\$ 574,222	9/1/2012
Live Oak Marquee	41,520	10/1/2012
Martin Murphy Shade Structure	232,195	5/1/2013
	<u>\$ 847,937</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, 2012, the District made payment of \$731,767 for workers compensation insurance and \$343,961 for property liability coverage to the Santa Clara County Schools Insurance Group.

NOTE 16 - SUBSEQUENT EVENTS

The District issued \$4,555,000 of Tax and Revenue Anticipation Notes dated July 20, 2012. The notes mature on June 1, 2013, 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, 2013, until 100 percent of principal and interest due is on account in May, 2013.

REQUIRED SUPPLEMENTARY INFORMATION

MORGAN HILL UNIFIED SCHOOL DISTRICT

GENERAL FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual	Variances -
	Original	Final	(GAAP Basis)	Favorable (Unfavorable)
				Final to Actual
REVENUES				
Revenue limit sources	\$ 45,214,522	\$ 44,797,874	\$ 45,065,357	\$ 267,483
Federal sources	3,707,140	6,304,664	5,166,206	(1,138,458)
Other state sources	9,150,027	9,496,420	9,620,283	123,863
Other local sources	5,583,244	6,884,577	6,403,591	(480,986)
Total Revenues¹	63,654,933	67,483,535	66,255,437	(1,228,098)
EXPENDITURES				
Current				
Certificated salaries	30,275,406	29,810,009	29,560,093	249,916
Classified salaries	9,559,779	9,145,913	9,013,357	132,556
Employee benefits	11,980,208	11,593,693	11,438,399	155,294
Books and supplies	2,659,718	5,065,031	2,681,658	2,383,373
Services and operating expenditures	8,098,894	8,401,724	6,966,350	1,435,374
Other outgo	3,540,245	3,805,472	3,718,137	87,335
Capital outlay	2	136,705	135,608	1,097
Total Expenditures¹	66,114,252	67,958,547	63,513,602	4,444,945
Excess (Deficiency)				
of Revenues Over Expenditures	(2,459,319)	(475,012)	2,741,835	3,216,847
Other Financing Sources (Uses):				
Transfers in	218,000	118,000	133,790	15,790
Transfers out	(416,000)	(416,000)	(916,000)	(500,000)
Net Financing Sources (Uses)	(198,000)	(298,000)	(782,210)	(484,210)
NET CHANGE				
IN FUND BALANCES	(2,657,319)	(773,012)	1,959,625	2,732,637
Fund Balance - Beginning	16,847,228	16,847,228	16,847,228	-
Fund Balance - Ending	\$ 14,189,909	\$ 16,074,216	\$ 18,806,853	\$ 2,732,637

¹ For comparison purpose, on behalf payments of \$1,627,081 are excluded in this schedule. In addition, due to the consolidation of Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, and Fund 20, Special Reserve Fund for Postemployment Benefits for reporting purposes into the General Fund, additional revenues and expenditures pertaining to these other funds are included in the actual, original and final General Fund budgets.

MORGAN HILL UNIFIED SCHOOL DISTRICT

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING
PROGRESS
FOR THE YEAR ENDED JUNE 30, 2012**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Frozen Entry Age (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	\$ -	\$ 21,213,837	\$ 21,213,837	0%	\$ 39,862,026	53.22%
July 1, 2009	68,343	5,616,811	5,548,468	1%	41,743,655	13.29%

SUPPLEMENTARY INFORMATION

MORGAN HILL UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2012

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):			
No Child Left Behind			
Title I - Basic Grants Low Income and Neglected	84.010	14981	\$ 904,625
Title I - Migrant Education	84.011	14326	264,680
Title I - Migrant Education Summer Program	84.011	10005	114,948
Title I - Part A, Program Improvement LEA	84.010	14341	36,058
Title II - Improving Teacher Quality	84.367	14341	430,019
Title II - Administrator Training	84.367	14344	5,580
Title III - Limited English Proficient (LEP) Student Program	84.365	14346	165,699
Title III - Immigrant Education Program	84.365	15146	2,901
Title IV - Drug-Free Schools	84.186	14347	(9)
Teaching American History Grant Program	84.215	2	270,443
Individuals with Disabilities Act (IDEA):			
Basic Local Assistance Entitlement	84.027	13379	1,729,564
IDEA, Part B, Section 611, Private Schools	84.027	10115	18,361
IDEA, Preschool Grants, Part B, Section 619	84.173	13430	41,748
IDEA, Mental Health Allocation Plan, Part B, Section 611	84.027	14468	66,016
IDEA, ARRA Part B, Section 619, Preschool Grants	84.027A	13682	72,431
IDEA, Preschool Staff Development, Part B, Section 619	84.173A	13431	405
ARRA State Fiscal Stabilization Fund	84.394	25008	65,276
Education Jobs Fund	84.410	25152	713,391
Vocational and Applied Technology	84.048	13924	44,967
Adult Basic Education	84.002	14508	60,040
Adult Secondary Education	84.002	13978	29,921
English Literacy and Civics Education	84.002A	14109	33,534
Subtotal			<u>5,070,598</u>

See accompanying note to supplementary information.

MORGAN HILL UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED FOR THE YEAR ENDED JUNE 30, 2012

U.S. DEPARTMENT OF AGRICULTURE

Passed through CDE:

National School Lunch Program

10.555 13524 1,195,008

Especially Needy Breakfast

10.553 13526 561,841

Commodity Supplemental Food Program¹

10.555 13524 103,970

Subtotal

1,860,819

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Passed through CDE:

Child Development Act:

Medi-Cal Billing Option

93.778 13390 217,437

Medi-Cal Administrative Activates

93.778 10060 61,303

Subtotal

278,740

Total Expenditures of Federal Awards

\$ 7,210,157

¹ Not recorded in the financial statements.

² PCA number is not available.

See accompanying note to supplementary information.

MORGAN HILL UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2012

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>
Ron Woolf	President	2014
Don Moody	Vice President	2014
Robert Benevento	Member	2012
Peter Mandel	Member	2012
Claudia Rossi	Member	2014
Kathy Sullivan	Member	2012
Shelle Thomas	Member	2014

ADMINISTRATION

Wesley Smith	Superintendent
Bonnie Tognazzini	Deputy Superintendent

See accompanying note to supplementary information.

MORGAN HILL UNIFIED SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE FOR THE YEAR ENDED JUNE 30, 2012

	Revised P-2 Report	Annual Report
ELEMENTARY		
Kindergarten	627	628
First through third	1,848	1,847
Fourth through sixth	1,908	1,907
Seventh and eighth	1,149	1,147
Home and hospital	1	1
Special education	154	157
Total Elementary	5,688	5,686
SECONDARY		
Regular classes	2,496	2,479
Continuation education	134	128
Home and hospital	3	3
Special education	54	54
Total Secondary	2,686	2,665
Total K-12	8,374	8,350

See accompanying note to supplementary information.

MORGAN HILL UNIFIED SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME FOR THE YEAR ENDED JUNE 30, 2012

Grade Level	1982-83 Actual Minutes	Reduced 1982-83 Actual Minutes	1986-87 Minutes Requirement	Reduced 1986-87 Minutes Requirement	2011-12 Actual Minutes	Number of Days Traditional Calendar	Status
Kindergarten	31,680	30,800	36,000	35,000	37,290	179	Complied
Grade 1	47,480	46,161	50,400	49,000	50,715	179	Complied
Grade 2	47,480	46,161	50,400	49,000	50,715	179	Complied
Grade 3	47,480	46,161	50,400	49,000	50,715	179	Complied
Grade 4	52,740	51,275	54,000	52,500	54,270	179	Complied
Grade 5	52,740	51,275	54,000	52,500	54,270	179	Complied
Grade 6	52,740	51,275	54,000	52,500	54,270	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	64,534	179	Complied
Grade 10	57,726	56,123	64,800	63,000	64,534	179	Complied
Grade 11	57,726	56,123	64,800	63,000	64,534	179	Complied
Grade 12	57,726	56,123	64,800	63,000	64,534	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, 2012

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, 2012, Unaudited Actuals	\$ 16,746,216	\$ 1,504,548	\$ 556,089
As a result of the implementation of GASB Statement No. 54, Fund 17 and Fund 20 are combined into audited financial statement.	2,060,637	(1,504,548)	(556,089)
Balance, June 30, 2012, Audited Financial Statement	<u>\$ 18,806,853</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, 2012

	(Budget) 2013 ¹	2012	2011	2010
GENERAL FUND ⁴				
Revenues	\$ 62,677,982	\$ 66,255,437	\$ 68,965,589	\$ 68,423,600
Other sources and transfers in	118,000	133,790	25,392	17,690
Total Revenues and Other Sources	62,795,982	66,389,227	68,990,981	68,441,290
Expenditures	64,666,996	63,513,602	67,349,310	69,334,487
Other uses and transfers out	416,000	916,000	200,000	239,654
Total Expenditures and Other Uses	65,082,996	64,429,602	67,349,310	69,574,141
INCREASE (DECREASE) IN FUND BALANCE	\$ (2,287,014)	\$ 1,959,625	\$ 1,641,671	\$ (1,132,851)
ENDING FUND BALANCE	\$ 16,519,839	\$ 18,806,853	\$ 16,847,228	\$ 13,175,827
AVAILABLE RESERVES ²	\$ 6,391,464	\$ 8,699,663	\$ 8,540,194	\$ 10,314,274
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO ³	9.82%	13.50%	12.94%	15.13%
LONG-TERM OBLIGATIONS	\$ 75,025,579	\$ 81,280,346	\$ 83,745,463	\$ 73,919,574
K-12 AVERAGE DAILY ATTENDANCE AT P-2	8,374	8,374	8,542	8,679

The General Fund balance has increased by \$5,631,026 over the past two years. The 2012 General Fund ending fund balance amount includes the consolidation of the Special Reserve Fund in the amount of \$1,504,548 and Special Reserve fund for Retiree Benefits in the amount of \$556,089. The fiscal year 2012-2013 budget projects a decrease of \$2,287,014 (14 percent). 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 two years, but anticipates incurring an operating deficit during the 2012-2013 fiscal year. Total long-term obligations have increased by \$7,360,772 over the past two years.

Average daily attendance has decreased by 305 over the past two years. No change in ADA is anticipated during fiscal year 2012-2013.

¹ Budget 2013 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 \$1,627,081, \$1,374,855, and \$1,412,241 have been excluded from this schedule for fiscal year ending June 30, 2012, 2011 and 2010, respectively.

⁴ General Fund amounts 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, 2012**

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

See accompanying note to supplementary information.

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MORGAN HILL UNIFIED SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS COMBINING BALANCE SHEET JUNE 30, 2012

	Adult Education Fund	Child Development Fund	Cafeteria Fund
ASSETS			
Deposits and investments	\$ 2,294	\$ (60)	\$ 478,815
Receivables	316,283	90	284,374
Due from other funds	-	3	-
Stores inventories	-	-	1,872
Total Assets	\$ 318,577	\$ 33	\$ 765,061
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ -	\$ 33	\$ 6,503
Total Liabilities	-	33	6,503
Fund Balances:			
Nonspendable	5,000	-	2,872
Restricted	36,376	-	755,686
Committed	277,201	-	-
Total Fund Balances	318,577	-	758,558
Total Liabilities and Fund Balances	\$ 318,577	\$ 33	\$ 765,061

See accompanying note to supplementary information

Deferred Maintenance Fund	Capital Facilities Fund	Capital Projects Fund	Total Non-Major Governmental Funds
\$ 588,016	\$ 1,764,591	\$ 1,556,331	\$ 4,389,987
966	2,300	2,127	606,140
-	-	-	3
-	-	-	1,872
<u>\$ 588,982</u>	<u>\$ 1,766,891</u>	<u>\$ 1,558,458</u>	<u>\$ 4,998,002</u>

\$ -	\$ 9,261	\$ -	\$ 15,797
-	9,261	-	15,797
-	-	-	7,872
-	1,757,630	1,558,458	4,108,150
588,982	-	-	866,183
<u>588,982</u>	<u>1,757,630</u>	<u>1,558,458</u>	<u>4,982,205</u>
<u>\$ 588,982</u>	<u>\$ 1,766,891</u>	<u>\$ 1,558,458</u>	<u>\$ 4,998,002</u>

MORGAN HILL UNIFIED SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE FOR THE YEAR ENDED JUNE 30, 2012

	Adult Education Fund	Child Development Fund	Cafeteria Fund
REVENUES			
Federal sources	\$ 123,495	\$ -	\$ 1,756,850
Other state sources	478,859	235,914	159,997
Other local sources	40,249	148	796,684
Total Revenues	<u>642,603</u>	<u>236,062</u>	<u>2,713,531</u>
EXPENDITURES			
Current			
Instruction	235,625	225,572	-
Instruction-related activities:			
School site administration	230,344	-	-
Pupil services:			
Food services	-	-	2,524,265
General administration:			
All other general administration	15,755	10,490	114,916
Plant services	21,558	-	-
Facility acquisition and construction	-	-	-
Total Expenditures	<u>503,282</u>	<u>236,062</u>	<u>2,639,181</u>
Excess (Deficiency) of Revenues Over Expenditures	139,321	-	74,350
Other Financing Sources (Uses):			
Transfers out	(100,000)	-	-
NET CHANGE IN FUND BALANCES	<u>39,321</u>	<u>-</u>	<u>74,350</u>
Fund Balance - Beginning	279,256	-	684,208
Fund Balance - Ending	<u>\$ 318,577</u>	<u>\$ -</u>	<u>\$ 758,558</u>

See accompanying note to supplementary information

Deferred Maintenance Fund	Capital Facilities Fund	Capital Projects Fund	Total Non-Major Governmental Funds
\$ -	\$ -	\$ -	\$ 1,880,345
311,215	-	-	1,185,985
3,776	1,134,729	479,915	2,455,501
<u>314,991</u>	<u>1,134,729</u>	<u>479,915</u>	<u>5,521,831</u>
-	-	-	461,197
-	-	-	230,344
-	-	-	2,524,265
-	-	-	141,161
194,719	93,615	1,691	311,583
-	384,372	19,971	404,343
<u>194,719</u>	<u>477,987</u>	<u>21,662</u>	<u>4,072,893</u>
120,272	656,742	458,253	1,448,938
-	(33,790)	-	(133,790)
120,272	622,952	458,253	1,315,148
468,710	1,134,678	1,100,205	3,667,057
<u>\$ 588,982</u>	<u>\$ 1,757,630</u>	<u>\$ 1,558,458</u>	<u>\$ 4,982,205</u>

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2012

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
Federal revenues reported in the Statement of Revenues, Expenditures and		
Changes in Fund Balance:		\$ 7,792,027
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	(751,116)
Commodities are not recorded on the financial statement.	10.555	103,970
ARRA grant that were received in the prior year have been spent in the		
current year.	84.394	65,276
Total Schedule of Expenditures of Federal Awards		<u>\$ 7,210,157</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, 2012

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 Balance

The Non-Major Governmental Funds Combining Balance Sheet and Combining Statement of Revenues, Expenditures and Changes in Fund Balance is included to provide information regarding the individual funds that have been included in the Non-Major Governmental Funds column on the Governmental Funds Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance.

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 the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Morgan Hill Unified School District as of and for the year ended June 30, 2012, which collectively comprise Morgan Hill Unified School District's basic financial statements and have issued our report thereon dated November 29, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Morgan Hill Unified School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Morgan Hill Unified School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Morgan Hill Unified School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Morgan Hill Unified School District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

Compliance and Other Matters

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

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

Lavrinek, Trine, Day & Co., LLP

Palo Alto, California
November 29, 2012



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Trustees
Morgan Hill Unified School District
Morgan Hill, California

Compliance

We have audited Morgan Hill Unified School District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Morgan Hill Unified School District's major Federal programs for the year ended June 30, 2012. Morgan Hill Unified School District's major Federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of Morgan Hill Unified School District's management. Our responsibility is to express an opinion on Morgan Hill Unified School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about 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.

In our opinion, Morgan Hill Unified School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

The management of Morgan Hill Unified School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered Morgan Hill Unified School District's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the 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.

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 that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

Vassinek, Trine, Day & Co., LLP

Palo Alto, California
November 29, 2012



INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Trustees
Morgan Hill Unified School District
Morgan Hill, California

We have audited Morgan Hill Unified School District's compliance with the requirements as identified in the *Standards and Procedures for Audit of California K-12 Local Educational Agencies 2011-2012* applicable to Morgan Hill Unified School District's government programs as noted below for the year ended June 30, 2012. Compliance with the requirements referred to above is the responsibility of Morgan Hill Unified School District's management. Our responsibility is to express an opinion on Morgan Hill Unified School District's compliance based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2011-2012* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about Morgan Hill Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of Morgan Hill Unified School District's compliance with those requirements.

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, 2012.

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:

	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance reporting	6	Yes
Teacher Certification and Misassignments	3	Yes
Kindergarten continuance	3	Yes
Independent study	23	No
Continuation education	10	Yes
Instructional Time:		
School districts	6	Yes
County offices of education	3	Not Applicable

	Procedures in Audit Guide	Procedures Performed
Instructional Materials:		
General requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	Not Applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Public Hearing Requirement - Receipt of Funds	1	Yes
Juvenile Court Schools	8	Not Applicable
Exclusion of Pupils - Pertussis Immunization	2	Yes
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	3	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

We did not perform testing for Independent Study Attendance because the reported ADA was below the state minimum audit threshold.

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

Wassinek, Trine, Day & Co., LLP

Palo Alto, California
November 29, 2012

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MORGAN HILL UNIFIED SCHOOL DISTRICT

SUMMARY OF AUDITOR'S RESULTS FOR THE YEAR ENDED JUNE 30, 2012

FINANCIAL STATEMENTS

Type of auditor's report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified?	<u>None reported</u>
Type of auditor's report issued on compliance for major programs:	<u>Unqualified</u>
Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB A-133	<u>No</u>
Identification of major programs:	

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>84.367</u>	<u>Title II-Improving Teacher Quality</u>
<u>10.553, 10.555</u>	<u>Child Nutrition Cluster</u>

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

STATE AWARDS

Type of auditor's report issued on compliance for all programs:	<u>Unqualified</u>
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MORGAN HILL UNIFIED SCHOOL DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012**

None reported.

MORGAN HILL UNIFIED SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

None reported.

MORGAN HILL UNIFIED SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

None reported.

MORGAN HILL UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2012

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

Financial Statement Findings

2011-1 Code 60000

Internal Control

Finding

During the audit, we noted that the District had omitted to accrue its charter school in-lieu property tax receivable of \$717,455 and had over accrued other program receivable of 57,014. As a result, audit adjustments were made in the amount of \$660,441 to accounts receivable in the General Fund.

Recommendation

We recommend that the District review its internal control policies and procedures over the recording of year end accruals and implement a procedure to ensure that transactions are recorded properly.

Current Status

Implemented.

Federal Awards Findings

None reported.

State Awards Findings

None reported.

Status

Implemented.