

**MORGAN HILL UNIFIED  
SCHOOL DISTRICT**

**ANNUAL FINANCIAL REPORT**

**JUNE 30, 2010**



# MORGAN HILL UNIFIED SCHOOL DISTRICT

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JUNE 30, 2010

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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, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2009-10*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Morgan Hill Unified School District, as of June 30, 2010, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2010, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information listed in the table of contents, including the Schedule of Expenditures of Federal Awards which is required by U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Palo Alto, California  
December 7, 2010



# **MORGAN HILL UNIFIED SCHOOL DISTRICT**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010**

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The discussion and analysis of Morgan Hill Unified School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2010. 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 2009-10 general fund expenditures and other financing uses totaled \$69.5 million.
- Long-term liabilities decreased by \$3.1 million due to current year payments on outstanding general obligation bonds.
- At June 30, 2010, the District had available reserves of \$10.3 million in the general fund and special reserve fund representing a reserve of 15.13% 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

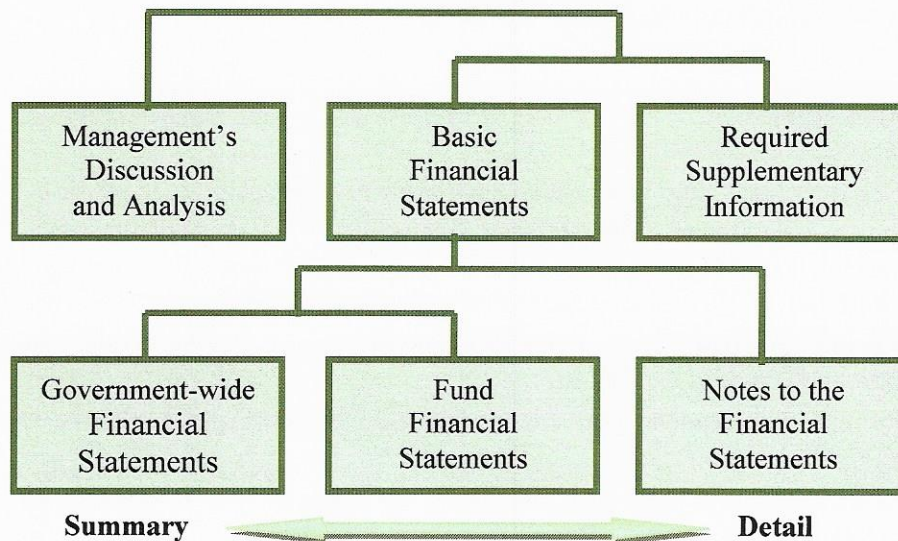
JUNE 30, 2010

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### OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and required supplementary information. These statements are organized so the reader can understand the Morgan Hill Unified School District as a financial whole, an entire operating entity. These statements then proceed to provide an increasingly detailed look at specific financial activities.

#### Components of the Financial Section



The first two statements are district-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. A comparison of the District's general fund is included.

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, 2010**

### **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 account all of the current year's revenues and expenses regardless of when cash is received or paid. These statements report information on the district as a whole and its activities in a way that helps answer the question, "How did we do financially during 2009-10?"

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, 2010

### ◆ 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 \$143.9 million at June 30, 2009. Of this amount \$9.5 million was unrestricted. For the period ending June 30, 2010, the District's net assets decreased to \$143.1 million, or .58% decrease. Of this amount \$13.6 million was unrestricted.

(Table 1)  
Comparative Statement of Net Assets

	Governmental Activities	
	2010	2009
Deposits and investments	\$ 29,280,492	\$ 35,230,223
Receivables	4,609,839	4,827,015
Prepaid expenses	1,094,851	1,661,856
Stores inventory	149,163	142,234
Other postemployment assets	128,255	70,552
Capital assets	186,273,073	185,891,730
<b>Total Assets</b>	<b>221,535,673</b>	<b>227,823,610</b>
Accounts payable and other current liabilities	3,436,718	4,394,372
Deferred revenue	999,178	1,149,792
Long-term liabilities	73,919,574	78,280,973
<b>Total Liabilities</b>	<b>78,355,470</b>	<b>83,825,137</b>
Net assets		
Invested in capital assets, net of related debt	118,321,295	118,713,143
Restricted	11,203,245	15,781,290
Unrestricted	13,655,663	9,504,040
<b>Total Net Assets</b>	<b>\$ 143,180,203</b>	<b>\$ 143,998,473</b>

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2010

The District's net asset position decreased by \$818,270 for this fiscal year (see Table 1). The District's expenses for instruction and pupil services represented 78 percent of total expenses. The purely administrative activities of the District account for just 6 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 Figure 2).

(Table 2)  
Comparative Statement of Change in Net Assets

	Governmental Activities	
	2010	2009
<b>Revenues</b>		
Program revenues:	\$ 17,011,031	\$ 19,164,093
General revenues:		
Taxes levied for general purposes	44,765,725	44,592,721
Taxes levied for debt service	7,306,259	6,789,662
Taxes levied for other specific purpose	683,462	2,310,898
Federal and state aid not restricted to specific purposes	7,377,008	8,046,149
Interest and investment earnings	322,216	589,799
Miscellaneous	3,407,509	6,471,959
<b>Total Revenues</b>	<b>80,873,210</b>	<b>87,965,281</b>
<b>Expenses</b>		
Instruction	47,603,282	46,301,953
Instruction related services	7,915,326	8,031,471
Pupis support services	7,992,866	7,987,049
General administration	4,502,883	4,227,770
Plant services	6,024,944	5,615,696
Other	7,652,179	7,096,058
<b>Total Expenses</b>	<b>81,691,480</b>	<b>79,259,997</b>
<b>Increase In Net Assets</b>	<b>\$ (818,270)</b>	<b>\$ 8,705,284</b>

# MORGAN HILL UNIFIED SCHOOL DISTRICT

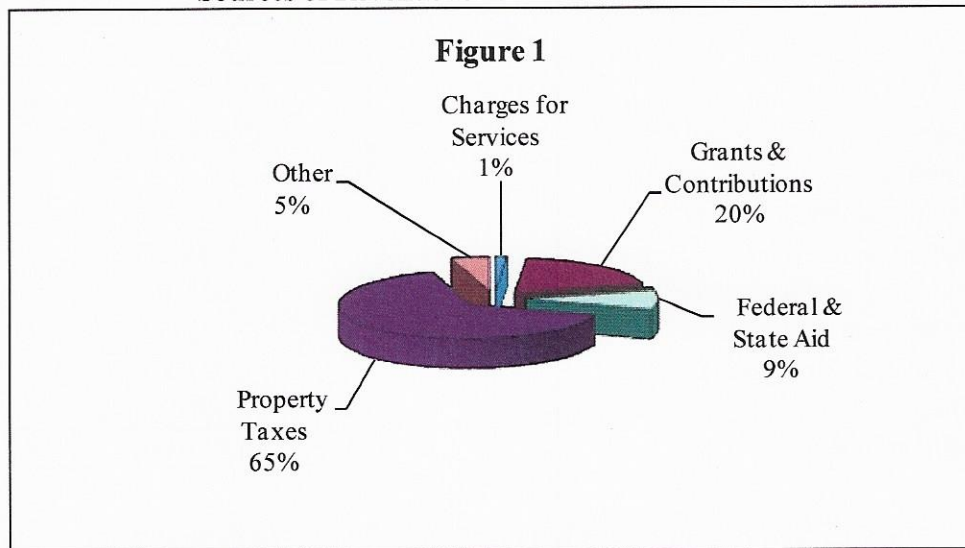
## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2010

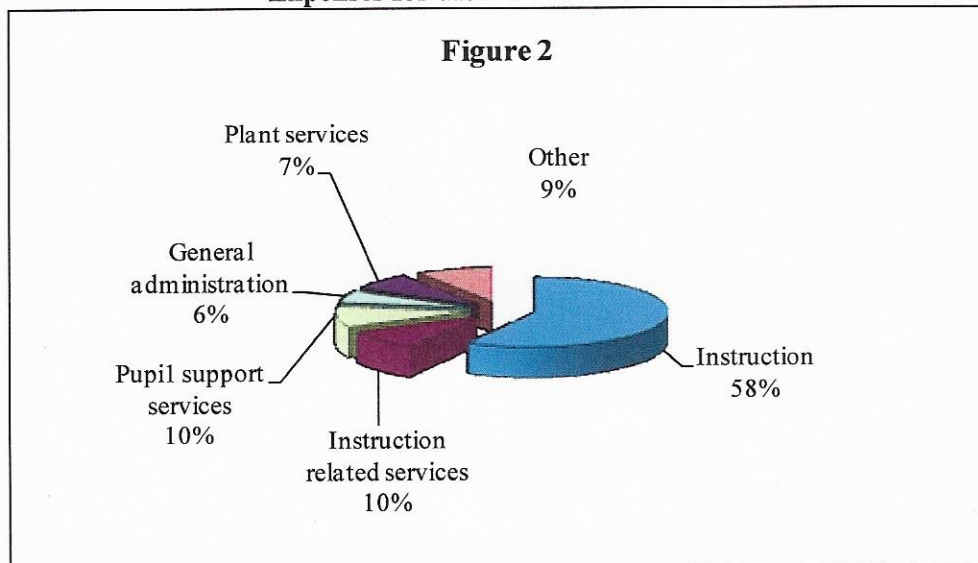
### Governmental Activities

As reported in the Statement of Activities, the cost of all the District's governmental activities this year was \$81.7 million. The amount that our local taxpayers financed for these activities through property taxes was \$52.8 million. Federal and State aid not restricted to specific purposes total \$7 million. State and Federal Categorical program revenues which include charges for services and sales of \$1.1 million and operating grants and contributions of \$15.8 million totaling over \$17 million, or 20% of the revenue of the entire District (See Figure 1).

Sources of Revenue for the 2009-10 Fiscal Year



Expenses for the Fiscal Year 2009-10





# **MORGAN HILL UNIFIED SCHOOL DISTRICT**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010**

### **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 \$30.7 million, a decrease of \$4.3 million from the previous fiscal year. This decrease is mainly reflected in the Building Fund and Capital Facilities Fund. The General Fund balance decreased \$1.1 million.

#### **General Fund Budgetary Highlights**

Over the course of the year, the District revised the annual operating budget monthly. 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 enrollments.
- ◆ 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 \$13.2 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, 2010

### CAPITAL ASSET AND DEBT ADMINISTRATION

#### Capital Assets

By the end of the 2009-10 fiscal year, the District had investments of \$227.7 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 \$186.3 million at June 30, 2010 which is an increase of \$0.4 million from the previous year due to acquisitions totaling \$5.74 million and depreciation expense of \$5 million.

(Table 3)  
Comparative Schedule of Capital Assets  
(net of depreciation)  
June 30, 2010 and 2009

	2010	2009	Difference	Percentage Change
Land	\$ 724,021	\$ 724,021	\$ -	0.0%
Buildings & Improvements	182,434,391	79,192,309	103,242,082	130.4%
Machinery & Equipment	2,580,057	3,046,281	(466,224)	-15.3%
Work In Progress	534,604	102,929,119	(102,394,515)	-99.5%
<b>Totals</b>	<b>\$ 186,273,073</b>	<b>\$ 185,891,730</b>	<b>\$ 381,343</b>	<b>0.2%</b>

#### Long-Term Obligations

As of June 30, 2010, the District had \$73.9 million in long-term obligations outstanding.

(Table 4)  
Comparative Schedule of Outstanding Debt  
June 30, 2010 and 2009

	2010	2009
General obligation bonds ( Including premiums, accretions and defeasance costs)	\$ 73,614,583	\$ 76,770,260
Compensated absences	304,991	293,255
<b>Totals</b>	<b>\$ 73,919,574</b>	<b>\$ 77,063,515</b>

The long-term obligations paid by the District were \$4.1 million.



# **MORGAN HILL UNIFIED SCHOOL DISTRICT**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010**

### **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 four elementary schools in Program Improvement. El Toro Elementary entered safe harbor in 09-10. Jackson Elementary, in year 5, has dedicated categorical resources and intensive staff development to assist the school in working with their EL 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 234 employees meet these eligibility requirements. During the 2009-10 school year, expenditures of \$638,798 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, 2010

### 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 decreased in ADA for the first time in the last 4 years. The chart below depicts actual ADA for 2006-2010.

<u>ADA P-2</u>	<u>2006-2007</u>	<u>2007-2008</u>	<u>2008-2009</u>	<u>2009-2010</u>
Elementary	5,738.38	5,825.40	5,939.36	5,858.56
High School	2,729.65	2,769.16	2,812.69	2,821.06
Total ADA	8,468.03	8,594.56	8,752.05	8,679.62
ADA Change	137.34	126.53	157.49	-72.43
% Change	1.65%	1.49%	1.83%	-0.83%

### 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 Loreen Dow, 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, 2010

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Deposits and investments	\$ 29,280,492
Receivables	4,609,839
Deferred charges	1,094,851
Stores inventories	149,163
Other postemployment benefit asset	128,255
Capital assets not depreciated	1,258,625
Capital assets, net of accumulated depreciation	185,014,448
<b>Total Assets</b>	<b>221,535,673</b>
<b>LIABILITIES</b>	
Accounts payable	2,288,260
Interest payable	1,148,458
Deferred revenue	999,178
Current portion of long-term obligations	5,063,607
Noncurrent portion of long-term obligations	68,855,967
<b>Total Liabilities</b>	<b>78,355,470</b>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	118,321,295
Restricted for:	
Legally restricted	2,514,722
Debt service	4,876,652
Capital projects	2,403,420
Special revenue	1,408,451
Unrestricted	13,655,663
<b>Total Net Assets</b>	<b>\$ 143,180,203</b>

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, 2010

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
<b>Governmental Activities:</b>				
Instruction	\$ 47,603,282	\$ 33,343	\$ 8,338,182	\$ (39,231,757)
Instruction-related activities:				
Supervision of instruction	1,448,302	1,009	683,525	(763,768)
Instructional library and technology	239,962	113	5,858	(233,991)
School site administration	6,227,062	6,441	465,963	(5,754,658)
Pupil services:				
Home-to-school transportation	2,795,745	230,822	1,477,396	(1,087,527)
Food services	2,585,604	755,244	1,725,255	(105,105)
All other pupil services	2,611,517	299	912,318	(1,698,900)
General administration:				
Data processing	719,241	-	2,015	(717,226)
All other general administration	3,783,642	48,196	713,556	(3,021,890)
Plant services	6,024,944	85,170	63,970	(5,875,804)
Ancillary services	521,018	-	-	(521,018)
Community services	21,902	-	-	(21,902)
Interest on long-term obligations	3,877,693	-	-	(3,877,693)
Other outgo	3,231,566	2,175	1,460,181	(1,769,210)
<b>Total Governmental-Type Activities</b>	<b>\$ 81,691,480</b>	<b>\$ 1,162,812</b>	<b>\$ 15,848,219</b>	<b>(64,680,449)</b>
<b>General revenues and subventions:</b>				
Property taxes, levied for general purposes				44,765,725
Property taxes, levied for debt service				7,306,259
Taxes levied for other specific purposes				683,462
Federal and state aid not restricted to specific purposes				7,377,008
Interest and investment earnings				322,216
Miscellaneous				3,407,509
<b>Subtotal, General Revenues</b>				<b>63,862,179</b>
<b>Change in Net Assets</b>				<b>(818,270)</b>
Net Assets - Beginning				143,998,473
Net Assets - Ending				<b>\$ 143,180,203</b>

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, 2010

	General Fund	Building Fund	Bond Interest and Redemption Fund
<b>ASSETS</b>			
Deposits and investments	\$ 11,677,867	\$ 5,766,009	\$ 6,025,110
Receivables	4,361,645	12,373	-
Due from other funds	39,656	-	-
Stores inventories	147,445	-	-
<b>Total Assets</b>	<b>\$ 16,226,613</b>	<b>\$ 5,778,382</b>	<b>\$ 6,025,110</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 2,051,591	\$ 115,577	\$ -
Due to other funds	17	-	-
Deferred revenue	999,178	-	-
<b>Total Liabilities</b>	<b>3,050,786</b>	<b>115,577</b>	<b>-</b>
<b>Fund Balances:</b>			
Reserved for:			
Revolving cash	14,500	-	-
Stores inventories	147,445	-	-
Legally restricted programs	1,250,208	-	-
Unreserved:			
Designated	4,332,343	-	-
Undesignated, reported in:			
General fund	7,431,331	-	-
Special revenue funds	-	-	-
Debt service funds	-	-	6,025,110
Capital projects funds	-	5,662,805	-
<b>Total Fund Balance</b>	<b>13,175,827</b>	<b>5,662,805</b>	<b>6,025,110</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 16,226,613</b>	<b>\$ 5,778,382</b>	<b>\$ 6,025,110</b>

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

<b>Non Major Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 5,811,506	\$ 29,280,492
196,826	4,570,844
17	39,673
1,718	149,163
<u>\$ 6,010,067</u>	<u>\$ 34,040,172</u>

\$ 121,092	\$ 2,288,260
39,656	39,673
-	999,178
<u>160,748</u>	<u>3,327,111</u>

6,000	20,500
1,718	149,163
-	1,250,208
646,000	4,978,343
-	7,431,331
2,792,181	2,792,181
-	6,025,110
2,403,420	8,066,225
<u>5,849,319</u>	<u>30,713,061</u>
<u>\$ 6,010,067</u>	<u>\$ 34,040,172</u>



# MORGAN HILL UNIFIED SCHOOL DISTRICT

## RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS JUNE 30, 2010

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

<b>Total Fund Balance - Governmental Funds</b>		<b>\$ 30,713,061</b>
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of capital assets is	\$ 227,688,267	
Accumulated depreciation is	<u>(41,415,194)</u>	
Net Capital Assets		186,273,073
Expenditures relating to issuance of long-term debt were recognized on modified accrual basis, but are not capitalized on the statement of net assets.		
		1,094,851
In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide statements, unmatured interest on long-term obligations is recognized when it is incurred.		
		(1,148,458)
In governmental funds, the receipt of the special education mandated cost settlement is reported as revenue in the year received. On the statement of net assets, the settlement amount is recorded as a receivable and payments received in the current year reduce the receivable amount.		
		38,995
Excess contributions over the annual required contribution (ARC) for other post-employment benefits are recognized as a OPEB asset in the government-wide statements. On the governmental funds, the contribution are treated as expenditures.		
		128,255
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	73,614,583	
Compensated absences (vacations)	<u>304,991</u>	
Total Long-Term Liabilities		(73,919,574)
<b>Total Net Assets - Governmental Activities</b>		<b><u>\$ 143,180,203</u></b>

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

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# MORGAN HILL UNIFIED SCHOOL DISTRICT

## GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE FOR THE YEAR ENDED JUNE 30, 2010

	General Fund	Building Fund	Bond Interest and Redemption Fund
<b>REVENUES</b>			
Revenue limit sources	\$ 43,610,218	\$ -	\$ -
Federal sources	5,987,034	-	-
Other state sources	12,444,023	-	49,957
Other local sources	6,382,325	84,163	7,268,162
<b>Total Revenues</b>	<u>68,423,600</u>	<u>84,163</u>	<u>7,318,119</u>
<b>EXPENDITURES</b>			
Current			
Instruction	43,534,081	-	-
Instruction-related activities:			
Supervision of instruction	1,340,731	-	-
Instructional library, media and technology	222,146	-	-
School site administration	5,470,847	-	-
Pupil services:			
Home-to-school transportation	2,588,926	-	-
Food services	-	-	-
All other pupil services	2,418,439	-	-
General administration:			
Data processing	665,519	-	-
All other general administration	2,995,537	-	-
Plant services	6,237,421	-	-
Facility acquisition and construction	118,920	4,013,031	-
Ancillary services	490,088	-	-
Community services	20,266	-	-
Other outgo	3,231,566	-	-
Debt service	-	-	4,140,000
Principal	-	-	2,840,720
Interest and other	-	-	-
<b>Total Expenditures</b>	<u>69,334,487</u>	<u>4,013,031</u>	<u>6,980,720</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>(910,887)</u>	<u>(3,928,868)</u>	<u>337,399</u>
<b>Other Financing Sources (Uses):</b>			
Transfers in	17,690	-	-
Transfers out	(239,654)	-	-
<b>Net Financing Sources (Uses)</b>	<u>(221,964)</u>	<u>-</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>(1,132,851)</u>	<u>(3,928,868)</u>	<u>337,399</u>
<b>Fund Balance - Beginning</b>	<u>14,308,678</u>	<u>9,591,673</u>	<u>5,687,711</u>
<b>Fund Balance - Ending</b>	<u>\$ 13,175,827</u>	<u>\$ 5,662,805</u>	<u>\$ 6,025,110</u>

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

<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ -	\$ 43,610,218
1,728,551	7,715,585
1,355,270	13,849,250
2,002,502	15,737,152
<u>5,086,323</u>	<u>80,912,205</u>
640,977	44,175,058
-	1,340,731
-	222,146
295,846	5,766,693
-	2,588,926
2,394,136	2,394,136
-	2,418,439
-	665,519
166,001	3,161,538
953,988	7,191,409
442,631	4,574,582
-	490,088
-	20,266
-	3,231,566
-	4,140,000
-	2,840,720
<u>4,893,579</u>	<u>85,221,817</u>
<u>192,744</u>	<u>(4,309,612)</u>
239,654	257,344
<u>(17,690)</u>	<u>(257,344)</u>
<u>221,964</u>	<u>-</u>
414,708	(4,309,612)
5,434,611	35,022,673
<u>\$ 5,849,319</u>	<u>\$ 30,713,061</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, 2010

Total Net Change in Fund Balances - Governmental Funds \$ (4,309,612)

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

Capital outlays	\$ 5,738,035	
Depreciation expense	<u>(4,988,269)</u>	
Net Expense Adjustment		749,766

Loss on disposal of capital assets is reported in the government-wide statement of net assets, but is not recorded in the governmental funds. (368,423)

In the statement of activities, certain operating expenses, such as compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). (11,736)

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 on 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. 808,779

Debt defeasance costs are not recognized in governmental funds but are amortized to operations in the statement of activities over the life of the refunding bonds. (405,172)

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, 2010

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.

(1,387,930)

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.

4,140,000

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

69,000

An excess contribution over the annual required contribution (ARC) to the other post-employment benefit plan is recognized as plan assets in the government-wide statements. On the governmental funds, the contribution is treated as expenses.

57,703

In the governmental funds, the receipt of the special education mandated settlement is reported as revenue in the year received. On the statement of net assets, the settlement amount is recorded as a receivable and payments received in the current year reduce the receivable amount.

(38,995)

### Change in Net Assets of Governmental Activities

\$ (818,270)

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

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## FIDUCIARY FUND STATEMENT OF NET ASSETS JUNE 30, 2010

	Agency Funds
<b>ASSETS</b>	
Deposits and investments	\$ 677,321
<b>Total Assets</b>	<u>\$ 677,321</u>
<b>LIABILITIES</b>	
Due to student groups	\$ 677,321
<b>Total Liabilities</b>	<u>\$ 677,321</u>

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

# **MORGAN HILL UNIFIED SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010**

### **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 nine 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 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, 2010

### Major Governmental Funds

**General Fund** The General Fund is the chief operating fund for all Districts. It is used to account for the ordinary operations of a District. All transactions except those required or permitted by law to be in another fund are accounted for in this fund.

**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 or for major capital projects) that are restricted to the financing of particular activities:

**Adult Education Fund** The Adult Education Fund is used to account separately for federal, state, and local revenues for adult education programs and is to be expended for adult education purposes only, except for State revenues which, as a result of Senate Bill 4 of the 2009-10 Third Extraordinary Session (SBX3 4) may be used for any educational purpose.

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

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

**Deferred Maintenance Fund** The Deferred Maintenance Fund is used to account separately for state apportionments and the District's contributions for deferred maintenance purposes (*Education Code* Sections 17582-17587) and for items of maintenance approved by the State Allocation Board, except for State apportionments which, as a result of Senate Bill 4 of the 2009-10 Third Extraordinary Session (SBX3 4), may be used for any educational purpose.

**Special Reserve Fund for Other Than Capital Outlay** The Special Reserve for Other Than Capital Outlay Projects is used primarily to provide for the accumulation of General Fund monies for general operating purposes other than for capital outlay (*Education Code* Section 42840).



# MORGAN HILL UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

**Special Reserve Fund for Postemployment Benefits** The Special Reserve Fund for Postemployment Benefits may be used pursuant to *Education Code* Section 42840 to account for amounts the District has earmarked for the future cost of postemployment benefits but has not contributed irrevocably to a separate trust for the postemployment benefit plan.

**Debt Service Funds** The Debt Service funds are established to account for the accumulation of resources for and the payment of principal and interest on long-term obligations. This District has only one Debt Service Fund, Bond Interest and Redemption Fund, that is presented as a major fund.

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

**Capital Facilities Fund** The Capital Facilities Fund is used primarily to account separately for monies received from fees levied on developers or other agencies as a condition of approving a development (*Education Code* Sections 17620-17626. Expenditures are restricted to the purposes specified in *Government Code* Sections 65970-65981 or to the items specified in agreements with the developer (*Government Code* Section 66006).

**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 fund reporting focuses on net assets and changes in net assets. The District has only one Fiduciary Fund, which is an agency fund.

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, 2010

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, 2010**

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, 2010 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.

### **Restricted Assets**

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

### **Prepaid Expenditures**

Prepaid expenditures (expenses) represent amounts paid in advance of receiving goods or services. The District has the option of reporting expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditures over the benefiting period.

### **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 and expenses in the proprietary 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



# **MORGAN HILL UNIFIED SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2010**

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.

### **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.

# **MORGAN HILL UNIFIED SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010**

### **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.

### **Fund Balance Reserves and Designations**

The District reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for revolving cash accounts, stores inventories, prepaid expenditures (expenses), and legally restricted grants and entitlements.

Designations of fund balances consist of that portion of the fund balance that has been designated (set aside) by the governing board to provide for specific purposes or uses. Fund equity designations have been established for economic uncertainties, and other purposes.

### **Net Assets**

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

### **Interfund Activity**

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

### **Estimates**

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



# MORGAN HILL UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

### Budgetary Data

The budgetary process is prescribed by provisions of the California Education Code and requires the governing board to hold a public hearing and adopt an operating budget no later than July 1<sup>st</sup> 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 March 2009, the GASB issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The requirements of this Statement are effective for the financial statements for periods beginning after June 15, 2010. Early implementation is encouraged.



# MORGAN HILL UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

### NOTE 2 – DEPOSITS AND INVESTMENTS

#### Summary of Deposits and Investments

Deposits and investments as of June 30, 2010, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 29,280,492
Fiduciary funds	677,321
Total Deposits and Investments	<u>\$ 29,957,813</u>

Deposits and investments as of June 30, 2010, consist of the following:

Cash on hand and in banks	\$ 722,402
Investments	29,235,411
Total Deposits and Investments	<u>\$ 29,957,813</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, 2010

### General Authorizations

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

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

### Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the county treasury pool. The fair value of the deposits with county treasurer at June 30, 2010 was \$29,374,279 and the weighted average maturity of the pool was 326 days.

### 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. The District's investments in the county pool is not rated as of June 30, 2010.



# MORGAN HILL UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

### Custodial Credit Risk - Deposits

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

### NOTE 3 - RECEIVABLES

Receivables at June 30, 2010, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Building Fund	Non-Major Governmental Funds	Total
Federal Government				
Categorical aid	\$ 2,201,179	\$ -	\$ 84,648	\$ 2,285,827
State Government				
Apportionment	142,830	-	89,905	232,735
Categorical aid	777,262	-	10,518	787,780
Lottery	564,251	-	-	564,251
Local Government				
Interest	43,277	12,373	11,582	67,232
Other Local Sources	632,846	-	173	633,019
Total	<u>\$ 4,361,645</u>	<u>\$ 12,373</u>	<u>\$ 196,826</u>	<u>\$ 4,570,844</u>

Long-term receivables of \$38,995 consist of the special education mandated settlement which will due next year.



# MORGAN HILL UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

### NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

	Balance July 1, 2009	Additions	Deductions	Balance June 30, 2010
<b>Governmental Activities</b>				
Capital Assets Not Being Depreciated:				
Land	\$ 724,021	\$ -	\$ -	\$ 724,021
Construction in progress	102,929,119	5,392,616	107,787,131	534,604
Total Capital Assets Not Being Depreciated	103,653,140	5,392,616	107,787,131	1,258,625
Capital Assets Being Depreciated:				
Buildings and improvements	121,886,896	107,787,131	8,695,650	220,978,377
Furniture and equipment	6,283,342	345,419	1,177,496	5,451,265
Total Capital Assets Being Depreciated	128,170,238	108,132,550	9,873,146	226,429,642
Total Capital Assets	231,823,378	113,525,166	117,660,277	227,688,267
Less Accumulated Depreciation:				
Buildings and improvements	42,694,587	4,545,049	8,695,650	38,543,986
Furniture and equipment	3,237,061	443,220	809,073	2,871,208
Total Accumulated Depreciation	45,931,648	4,988,269	9,504,723	41,415,194
Governmental Activities Capital Assets, Net	<u>\$ 185,891,730</u>	<u>\$ 108,536,897</u>	<u>\$ 108,155,554</u>	<u>\$ 186,273,073</u>

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

<b>Governmental Activities</b>	
Instruction	\$ 3,449,032
Supervision of instruction	108,227
Instructional library, media, and technology	17,932
School site administration	465,496
Home-to-school transportation	208,982
Food services	193,258
All other pupil services	195,220
Ancillary services	39,561
Community services	1,636
Data processing	53,721
All other general administration	255,204
Total Depreciation Expense All Activities	<u>\$ 4,988,269</u>

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

### NOTE 5 – INTERFUND TRANSACTIONS

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

Interfund receivable and payable balances consist of amounts between major and non-major governmental funds are as follows:

Due To	Due From	
	General Fund	Non-major Governmental
General	\$ -	\$ 17
Non-Major Governmental funds	39,656	-
Total	\$ 39,656	\$ 17
		\$ 39,673

All balances resulted from the time lag between the date that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transaction are recorded in the accounting system, and (3) payments between funds are made.

#### Operating Transfers

Interfund transfers for the year ended June 30, 2010, consisted of the following:

Transfer Out	Transfer In	
	General Fund	Non-Major Governmental Fund
General Fund	\$ -	\$ 239,654
Non-Major Governmental funds	17,690	-
Total	\$ 17,690	\$ 239,654
		\$ 257,344

Capital Facility Fund transferred to General Fund for support.

\$ 17,690

General Fund transferred to Deferred Maintenance Fund for district match.

239,654

Total

\$ 257,344

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

### NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2010, consisted of the following:

	General Fund	Building Fund	Non-Major Governmental Funds	Total
Vendor payables	\$ 1,242,556	\$ 112,814	\$ 100,077	\$ 1,455,447
State apportionment	129,912	-	-	129,912
Salaries and benefits	679,123	2,763	21,015	702,901
Total	<u>\$ 2,051,591</u>	<u>\$ 115,577</u>	<u>\$ 121,092</u>	<u>\$ 2,288,260</u>

### NOTE 7 - DEFERRED REVENUE

Deferred revenue at June 30, 2010, consists of the following:

	General Fund
Federal financial assistance	\$ 230,411
State categorical aid	11,764
Other local	757,003
Total	<u>\$ 999,178</u>

### NOTE 8 - TAX AND REVENUE ANTICIPATION NOTES (TRANS)

On July 6, 2009, the District issued \$7,365,000 Tax and Revenue Anticipation Notes bearing interest at 2.5 percent. The notes were issued to supplement cash flows. Interest and principal were due and payable on July 1, 2010. By May 2010, 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 \$7,365,000 and related accrued interest and cash held in trust are not included in these financial statements.



# MORGAN HILL UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

### 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, 2009	Additions	Deductions	Balance June 30, 2010	Due in One Year
General obligation bonds	\$ 69,509,040	\$ -	\$ 4,140,000	\$ 65,369,040	\$ 4,660,000
Defeasance cost	(4,051,719)	-	(405,172)	(3,646,547)	(405,172)
Premium	8,087,792	-	808,779	7,279,013	808,779
Accretions on general obligation bonds	3,225,147	1,387,930	-	4,613,077	-
Accumulated vacation - net	293,255	11,736	-	304,991	-
	<u>\$ 77,063,515</u>	<u>\$ 1,399,666</u>	<u>\$ 4,543,607</u>	<u>\$ 73,919,574</u>	<u>\$ 5,063,607</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 will be paid by the fund for which the employee works.

#### Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date (August 1)	Interest Rate	Original Issue	Bonds Outstanding July 1, 2009	Accreted Interest	Redeemed	Bonds Outstanding June 30, 2010
2006							
Refunding (CIB) 2006	2020	3.5%-4.24%	\$ 68,180,000	\$ 60,735,000	\$ -	\$ 4,140,000	\$ 56,595,000
Refunding (CAB)	2016	4.25%-4.42%	8,774,040	11,999,187	1,387,930	-	13,387,117
			<u>\$ 76,954,040</u>	<u>\$ 72,734,187</u>	<u>\$ 1,387,930</u>	<u>\$ 4,140,000</u>	<u>69,982,117</u>
						Defeasance Premium	(3,646,547) 7,279,013
							<u>\$ 73,614,583</u>

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

### Debt Service Requirements to Maturity

The bonds mature through 2021 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2011	\$ 4,660,000	\$ 2,663,100	\$ 7,323,100
2012	5,215,000	2,439,525	7,654,525
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
2016-2021	39,987,814	16,814,736	56,802,550
Total	65,369,040	\$ 31,872,710	\$ 97,241,750
Accretion to Date	4,613,077		
	<u>\$ 69,982,117</u>		

### Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2010 amounted to \$304,991.

### NOTE 10 - FUND BALANCES

Fund balances with reservations/designations are composed of the following elements:

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
Reserved					
Revolving cash	\$ 14,500	\$ -	\$ -	\$ 6,000	\$ 20,500
Stores inventory	147,445	-	-	1,718	149,163
Restricted programs	1,250,208	-	-	-	1,250,208
Total Reserved	<u>1,412,153</u>	<u>-</u>	<u>-</u>	<u>7,718</u>	<u>1,419,871</u>
Unreserved					
Designated					
Economic uncertainties	2,046,712	-	-	-	2,046,712
Other designation	2,285,631	-	-	646,000	2,931,631
Total Designated	<u>4,332,343</u>	<u>-</u>	<u>-</u>	<u>646,000</u>	<u>4,978,343</u>
Undesignated	7,431,331	5,662,805	6,025,110	5,195,601	24,314,847
Total Unreserved	<u>11,763,674</u>	<u>5,662,805</u>	<u>6,025,110</u>	<u>5,841,601</u>	<u>29,293,190</u>
Total	<u>\$ 13,175,827</u>	<u>\$ 5,662,805</u>	<u>\$ 6,025,110</u>	<u>\$ 5,849,319</u>	<u>\$ 30,713,061</u>



# MORGAN HILL UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

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

#### Plan Description

The Postemployment Benefit Plan (the "Plan") is a single-employer defined benefit healthcare plan administered by the Morgan Hill Unified School District. The Plan provides medical and dental insurance benefits to eligible retirees. Membership of the Plan consists of 234 retirees currently receiving benefits and 757 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, with an additional amount to prefund benefits as determined annually through the agreements between the District, the District's bargaining units and the unrepresented groups. For fiscal year 2009-2010, the District contributed \$638,978 to the plan, all of which was used for current premiums (approximately 110 percent of current year's annual required contribution). Plan members are paid a monthly administrative charge amount equal to \$27.60 and increases by \$4.85 per year thereafter until it reaches \$97 per month. Special rule for employees who retire after age 55 with at least 10 years of service during the 2006-07 year: retired employees receive an allotment of \$9,000 per year (\$750 per month) for ten years, instead of the administrative charge.

#### Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	\$ 579,867
Interest on net OPEB obligation	(3,175)
Adjustment to annual required contribution	4,403
Annual OPEB cost (expense)	581,095
Contributions made	(638,798)
Increase in net OPEB asset	(57,703)
Net OPEB asset, beginning of year	(70,552)
Net OPEB asset, end of year	\$ (128,255)



# MORGAN HILL UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2010 was as follows:

Year Ended June 30,	Annual Required Contribution	Percentage Contributed	Net OPEB Assets
2009	\$ 554,585	113%	\$ 70,552
2010	581,095	112%	128,255

### Funded Status and Funding Progress

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	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, 2009	\$ -	\$ 8,028,528	\$ 8,028,528	0%	\$ 43,210,415	18.58%

### Actuarial Methods and Assumptions

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

In the July 1, 2009, actuarial valuation, the 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, 2010, was 28 years. At June 30, 2010, the District's Retiree Benefit Special Reserve fund held net assets in the amount of \$547,499, which consisted of \$546,285 on deposit with the county treasurer and receivables in the amount of \$1,214.

# **MORGAN HILL UNIFIED SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2010**

### **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, 2010, 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 2010, 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, 2010**

### **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 2009-2010 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the fiscal years ending June 30, 2010, 2009, and 2008, were \$2,798,684, \$2,882,006, and \$2,953,829, 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, 2010

### 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 2009-2010 was 9.709 percent of covered payroll. The contribution requirements of the plan members are established by State statute. The District's contributions of the employer's portion to CalPERS for the fiscal years ending June 30, 2010, 2009, and 2008, were \$894,490, \$901,938, and \$903,171, 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 \$1,447,512, \$1,577,943, and \$1,617,007 for the fiscal years ending June 30, 2010, 2009 and 2008. These amounts have been allocated in General Fund, Adult 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	Child Development	Total State Contribution
2007-08	4.517%	\$ 1,579,934	\$ 14,090	\$ 22,983	\$ 1,617,007
2008-09	4.517%	1,539,494	16,323	22,126	1,577,943
2009-10	4.267%	1,412,241	14,974	20,297	1,447,512

## 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, 2010.

# **MORGAN HILL UNIFIED SCHOOL DISTRICT**

## **NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010**

### **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, 2010, the District made payment of \$488,504 to the Santa Clara County Schools Insurance Group.

### **NOTE 16 - SUBSEQUENT EVENTS**

The District issued \$10,715,000 of Tax and Revenue Anticipation Notes dated July 1, 2010. The notes mature on June 1, 2011, and yield 0.65 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, 2011, until 100 percent of principal and interest due is on account in May, 2011.

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*REQUIRED SUPPLEMENTARY INFORMATION*

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# MORGAN HILL UNIFIED SCHOOL DISTRICT

## GENERAL FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2010

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Favorable (Unfavorable)
	Original	Final		Final to Actual
<b>REVENUES</b>				
Revenue limit sources	\$ 48,801,713	\$ 43,581,260	\$ 43,610,218	\$ 28,958
Federal sources	3,383,326	6,473,549	5,987,034	(486,515)
Other state sources	10,378,775	9,853,279	12,444,023	2,590,744
Other local sources	7,974,578	6,747,561	6,382,325	(365,236)
<b>Total Revenues<sup>1</sup></b>	<b>70,538,392</b>	<b>66,655,649</b>	<b>68,423,600</b>	<b>1,767,951</b>
<b>EXPENDITURES</b>				
Current				
Certificated salaries	33,523,572	33,272,154	34,059,013	(786,859)
Classified salaries	9,510,281	9,420,902	9,178,008	242,894
Employee benefits	11,708,856	11,777,830	11,165,992	611,838
Books and supplies	4,449,190	6,783,644	2,932,442	3,851,202
Services and operating expenditures	7,931,388	9,763,017	8,808,701	954,316
Other outgo	2,465,581	3,034,421	3,065,566	(31,145)
Capital outlay	2,031,126	379,067	124,765	254,302
<b>Total Expenditures<sup>1</sup></b>	<b>71,619,994</b>	<b>74,431,035</b>	<b>69,334,487</b>	<b>5,096,548</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(1,081,602)</b>	<b>(7,775,386)</b>	<b>(910,887)</b>	<b>6,864,499</b>
<b>Other Financing Sources (Uses):</b>				
Transfers in	113,838	113,238	17,690	(95,548)
Transfers out	(830,545)	(239,654)	(239,654)	-
<b>Net Financing Sources (Uses)</b>	<b>(716,707)</b>	<b>(126,416)</b>	<b>(221,964)</b>	<b>(95,548)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(1,798,309)</b>	<b>(7,901,802)</b>	<b>(1,132,851)</b>	<b>6,768,951</b>
<b>Fund Balance - Beginning</b>	<b>14,308,678</b>	<b>14,308,678</b>	<b>14,308,678</b>	<b>-</b>
<b>Fund Balance - Ending</b>	<b>\$ 12,510,369</b>	<b>\$ 6,406,876</b>	<b>\$ 13,175,827</b>	<b>\$ 6,768,951</b>

<sup>1</sup> On behalf payments of \$1,412,241 are included in the actual revenues and expenditures for General Fund, but have not been included in the budget amounts.

**MORGAN HILL UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING  
PROGRESS  
FOR THE YEAR ENDED JUNE 30, 2010**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) - Frozen Entry Age (b)</b>	<b>Unfunded AAL (UAAL) (b - a)</b>	<b>Funded Ratio (a / b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payrol ([b - a] / c)</b>
July 1, 2009	\$ -	\$ 8,028,528	\$ 8,028,528	0%	\$ 43,210,415	18.58%
July 1, 2006	-	7,861,000	7,790,448	0%	44,526,102	17.50%

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*SUPPLEMENTARY INFORMATION*

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# MORGAN HILL UNIFIED SCHOOL DISTRICT

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2010

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through	
		Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
No Child Left Behind			
Title I - Basic Grants Low Income and Neglected	84.010	14329	\$ 682,406
Title I - ARRA, Basic Grants Low Income and Neglected	84.389	15005	104,326
Title I - Migrant Education	84.011	14326	268,384
Title I - Migrant Education Summer Program	84.011	10005	77,233
Title II - Improving Teacher Quality	84.367	14341	217,059
Title II - Enhancing Education Through Technology	84.318	14334	7,038
Title III - Limited English Proficient (LEP) Student Program	84.365	10084	118,871
Title III - Immigrant Education Program	84.365	14346	3,789
Title IV - Drug-Free Schools	84.186	14347	16,977
Title V - Part A, Innovative Education Strategies	84.298A	14354	4,392
Teaching American History Grant Program	84.215	<sup>2</sup>	267,353
Individuals with Disabilities Act (IDEA):			
Basic Local Assistance Entitlement	84.027	13379	1,673,596
ARRA Basic Local Assistance	84.391	15003	1,577,474
Preschool Grants	84.173	13430	34,775
ARRA Preschool Grants	84.392	15000	49,365
ARRA Preschool Grants	84.392	13682	61,717
Preschool Staff Development	84.173	13431	333
California Preschool Instructional Network	84.173	14530	1,136
ARRA Preschool Local Entitlement	84.391	15002	72,585
ARRA State Fiscal Stabilization Fund	84.394	25008	3,162,542
Carl Perkins Act:			
Vocational and Applied Technology	84.048	13924	48,423
Adult Education Act:			
Adult Basic Education	84.002	14508	58,031
Adult Secondary Education	84.002	13978	18,751
English Literacy and Civics Education	84.002A	14109	31,606
Subtotal			<u>8,558,163</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, 2010

Passed though CDE:

Child Nutrition Act:

National School Lunch Program

10.555 13524 1,138,861

Especially Needy Breakfast

10.553 13526 441,962

Basic School Breakfast Program

10.553 13525 38,205

Commoditiy Supplemental Food Program<sup>1</sup>

10.555 13524 136,006

Subtotal

1,755,034

### U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Passed though CDE:

Child Development Act:

Medi-Cal Administrative Activites

93.778 10060 32,121

Total Expenditures of Federal Awards

\$ 10,345,317

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

<sup>2</sup> PCA number is not available.

See accompanying note to supplementary information.

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2010

### ORGANIZATION

The Morgan Hill Unified School District was established in 1999 and consists of an area comprising approximately 300 square miles. The District operates 9 elementary schools, 2 middle schools, 2 high schools, 1 continuation, and 1 adult school.

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Bart Fisher	President	2010
Peter Mandel	Vice President	2012
Michael J. Hickey	Member	2010
Julia Hover-Smoot	Member	2012
Don Moody	Member	2010
Kathleen Sullivan	Member	2012
Shelle Thomas	Member	2010

### 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, 2010

	Revised P-2 Report	Annual Report
ELEMENTARY		
Kindergarten	604	604
First through third	1,915	1,919
Fourth through sixth	1,960	1,962
Seventh and eighth	1,225	1,226
Home and hospital	1	1
Special education	153	154
Total Elementary	5,858	5,867
SECONDARY		
Regular classes	2,617	2,601
Continuation education	137	130
Home and hospital	4	4
Special education	63	64
Total Secondary	2,821	2,799
Total K-12	8,679	8,666

See accompanying note to supplementary information.

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## SCHEDULE OF INSTRUCTIONAL TIME FOR THE YEAR ENDED JUNE 30, 2010

Grade Level	1982-1983	Reduced 1982-83	1986-1987	Reduced 1986-87	2009-2010	2009-2010	Number of Days	Status
	Actual Minutes	Actual Minutes	Minutes Requirement	Minutes Requirement	Reduced Requirement	Actual Minutes	Traditional Calendar	
Kindergarten	31,680	30,800	36,000	35,000	34,971	36,000	180	Complied
Grade 1	47,480	46,161	50,400	49,000	48,960	51,025	180	Complied
Grade 2	47,480	46,161	50,400	49,000	48,960	51,025	180	Complied
Grade 3	47,480	46,161	50,400	49,000	48,960	51,025	180	Complied
Grade 4	52,740	51,275	54,000	52,500	52,457	54,550	180	Complied
Grade 5	52,740	51,275	54,000	52,500	52,457	54,550	180	Complied
Grade 6	52,740	51,275	54,000	52,500	52,457	54,550	180	Complied
Grade 7	54,560	53,044	54,000	52,500	52,457	55,730	180	Complied
Grade 8	54,560	53,044	54,000	52,500	52,457	55,730	180	Complied
Grade 9	57,726	56,123	64,800	63,000	62,949	65,057	180	Complied
Grade 10	57,726	56,123	64,800	63,000	62,949	65,057	180	Complied
Grade 11	57,726	56,123	64,800	63,000	62,949	65,057	180	Complied
Grade 12	57,726	56,123	64,800	63,000	62,949	65,057	180	Complied

See accompanying note to supplementary information.

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

Summarized below are the fund balance reconciliations between the unaudited actual financial report and the audited financial statements.

	General Fund
FUND BALANCE	
Balance, June 30, 2010, Unaudited Actuals	\$ 13,028,769
Increase in accounts receivable	147,058
Balance, June 30, 2010, Audited Financial Statement	<u>\$ 13,175,827</u>

See accompanying note to supplementary information.



# MORGAN HILL UNIFIED SCHOOL DISTRICT

## SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2010

	(Budget) 2011 <sup>1</sup>	2010	2009	2008
GENERAL FUND				
Revenues	\$ 62,189,664	\$ 68,423,600	\$ 75,907,073	\$ 73,626,170
Other sources and transfers in	116,238	17,690	9,534	45,037
Total Revenues and Other Sources	62,305,902	68,441,290	75,916,607	73,671,207
Expenditures	67,204,310	69,334,487	70,251,726	72,415,025
Other uses and transfers out	-	239,654	902,467	332,903
Total Expenditures and Other Uses	67,204,310	69,574,141	71,154,193	72,747,928
INCREASE (DECREASE) IN FUND BALANCE	\$ (4,898,408)	\$ (1,132,851)	\$ 4,762,414	\$ 923,279
ENDING FUND BALANCE	\$ 8,277,419	\$ 13,175,827	\$ 14,308,678	\$ 9,546,264
AVAILABLE RESERVES <sup>2</sup>	\$ 5,430,866	\$ 10,314,274	\$ 4,072,085	\$ 4,225,303
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO <sup>3</sup>	8.08%	15.13%	5.85%	5.94%
LONG-TERM OBLIGATIONS	\$ 68,855,967	\$ 73,919,574	\$ 77,063,515	\$ 79,896,999
K-12 AVERAGE DAILY ATTENDANCE AT P-2 <sup>4</sup>	8,677	8,679	8,753	8,595

The General Fund balance has increased by \$3,629,563, over the past two years. The fiscal year 2010-2011 budget projects a decrease of \$4,898,408 (37 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 surpluses in the past two years, but anticipates incurring an operating deficit during the 2010-2011 fiscal year. Total long-term obligations have decreased by \$5,977,425 over the past two years.

Average daily attendance has increased by 84 over the past two years. A decrease of 2 ADA is anticipated during fiscal year 2010-2011.

<sup>1</sup> Budget 2011 is included for analytical purposes only and has not been subjected to audit.

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

<sup>3</sup> On-behalf payments of \$1,412,241, \$1,539,494 and \$1,579,934 have been excluded from the calculation of the available reserves percentage for fiscal year ending June 30, 2010, 2009 and 2008, respectively.

<sup>4</sup> Excludes adult education ADA.

See accompanying note to supplementary information.

**MORGAN HILL UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF CHARTER SCHOOLS  
FOR THE YEAR ENDED JUNE 30, 2010**

<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, 2010

	Adult Education Fund	Child Development Fund	Cafeteria Fund
<b>ASSETS</b>			
Deposits and investments	\$ 117,248	\$ (5,724)	\$ 502,694
Receivables	149,182	11,657	25,283
Due from other funds	-	17	-
Stores inventories	-	-	1,718
<b>Total Assets</b>	<b>\$ 266,430</b>	<b>\$ 5,950</b>	<b>\$ 529,695</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 20,427	\$ 5,753	\$ 690
Due to other funds	39,459	197	-
<b>Total Liabilities</b>	<b>59,886</b>	<b>5,950</b>	<b>690</b>
<b>Fund Balances:</b>			
Reserved for:			
Revolving cash	5,000	-	1,000
Stores inventories	-	-	1,718
Unreserved:			
Designated	-	-	-
Undesignated, reported in:			
Special revenue funds	201,544	-	526,287
Capital projects funds	-	-	-
<b>Total Fund Balance</b>	<b>206,544</b>	<b>-</b>	<b>529,005</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 266,430</b>	<b>\$ 5,950</b>	<b>\$ 529,695</b>

See accompanying note to supplementary information

Deferred Maintenance Fund	Special Reserve Non-Capital Fund	Retiree Benefits Special Reserve Fund	Capital Facilities Fund	Capital Projects Fund	Total Non-Major Governmental Funds
\$ 679,155	\$ 1,479,106	\$ 546,285	\$ 1,494,191	\$ 998,551	\$ 5,811,506
1,465	3,125	1,214	2,874	2,026	196,826
-	-	-	-	-	17
-	-	-	-	-	1,718
<u>\$ 680,620</u>	<u>\$ 1,482,231</u>	<u>\$ 547,499</u>	<u>\$ 1,497,065</u>	<u>\$ 1,000,577</u>	<u>\$ 6,010,067</u>
\$ -	\$ -	\$ -	\$ 2,250	\$ 91,972	\$ 121,092
-	-	-	-	-	39,656
-	-	-	2,250	91,972	160,748
-	-	-	-	-	6,000
-	-	-	-	-	1,718
-	646,000	-	-	-	646,000
680,620	836,231	547,499	-	-	2,792,181
-	-	-	1,494,815	908,605	2,403,420
680,620	1,482,231	547,499	1,494,815	908,605	5,849,319
<u>\$ 680,620</u>	<u>\$ 1,482,231</u>	<u>\$ 547,499</u>	<u>\$ 1,497,065</u>	<u>\$ 1,000,577</u>	<u>\$ 6,010,067</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, 2010

	Adult Education Fund	Child Development Fund	Cafeteria Fund
<b>REVENUES</b>			
Federal sources	\$ 108,388	\$ 1,136	\$ 1,619,027
Other state sources	435,327	359,004	149,373
Other local sources	65,108	-	824,216
<b>Total Revenues</b>	<b>608,823</b>	<b>360,140</b>	<b>2,592,616</b>
<b>EXPENDITURES</b>			
Current			
Instruction	299,164	341,813	-
Instruction-related activities:			
School site administration	295,846	-	-
Pupil services:			
Food services	-	-	2,394,136
General administration:			
All other general administration	39,459	18,327	108,215
Plant services	21,590	-	-
Facility acquisition and construction	-	-	-
<b>Total Expenditures</b>	<b>656,059</b>	<b>360,140</b>	<b>2,502,351</b>
<b>Excess (Deficiency) of</b>			
<b>Revenues Over Expenditures</b>	<b>(47,236)</b>	<b>-</b>	<b>90,265</b>
<b>Other Financing Sources (Uses):</b>			
Transfers in	-	-	-
Transfers out	-	-	-
<b>Net Financing Sources (Uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(47,236)</b>	<b>-</b>	<b>90,265</b>
<b>Fund Balance - Beginning</b>	<b>253,780</b>	<b>-</b>	<b>438,740</b>
<b>Fund Balance - Ending</b>	<b>\$ 206,544</b>	<b>\$ -</b>	<b>\$ 529,005</b>

See accompanying note to supplementary information



Deferred Maintenance Fund	Special Reserve Non-Capital Fund	Retiree Benefit Special Reserve Fund	Capital Facilities Fund	Capital Projects Fund	Total Non-Major Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,728,551
411,566	-	-	-	-	1,355,270
5,274	15,779	6,149	603,784	482,192	2,002,502
416,840	15,779	6,149	603,784	482,192	5,086,323
-	-	-	-	-	640,977
-	-	-	-	-	295,846
-	-	-	-	-	2,394,136
-	-	-	-	-	166,001
356,603	-	-	574,108	1,687	953,988
-	-	-	-	442,631	442,631
356,603	-	-	574,108	444,318	4,893,579
60,237	15,779	6,149	29,676	37,874	192,744
239,654	-	-	-	-	239,654
-	-	-	(17,690)	-	(17,690)
239,654	-	-	(17,690)	-	221,964
299,891	15,779	6,149	11,986	37,874	414,708
380,729	1,466,452	541,350	1,482,829	870,731	5,434,611
\$ 680,620	\$ 1,482,231	\$ 547,499	\$ 1,494,815	\$ 908,605	\$ 5,849,319

# MORGAN HILL UNIFIED SCHOOL DISTRICT

## NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2010

### 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*.

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures and Changes in Fund Balance and the related expenditures reported on the Schedule of Expenditures of Federal Awards. Any unspent balances are reported as legally restricted ending balances within the General fund.

Description	CFDA Number	Amount
Federal revenues reported in the Statement of Revenues, Expenditures and Changes in Fund Balance:		\$ 7,715,585
ARRA grants that were received in the prior year have been spent in the current year.	84.394	3,006,120
ARRA grants that were received in the current year have not been spent in the current year.	84.394	(512,394)
Commodities are not recorded on the financial statement.	10.555	136,006
Total Schedule of Expenditures of Federal Awards		<u>\$ 10,345,317</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.

# **MORGAN HILL UNIFIED SCHOOL DISTRICT**

## **NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2010**

### **Reconciliation of Annual Financial and Budget Report with Audited Financial Statements**

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

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

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

### **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.



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*INDEPENDENT AUDITOR'S REPORTS*

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

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, 2010, which collectively comprise Morgan Hill Unified School District's basic financial statements and have issued our report thereon dated December 7, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting as item 2010-1. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

## 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*.

Morgan Hill Unified School District's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit Morgan Hill Unified School District's response and, accordingly, express no opinion on it.

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.

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

Palo Alto, California  
December 7, 2010





**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 the compliance of Morgan Hill Unified School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its Morgan Hill Unified School District's major Federal programs for the year ended June 30, 2010. 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, 2010.

## 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 our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the 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 would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the governing board, management, the California Department of Education, the State Controller's Office, 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.

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

Palo Alto, California  
December 7, 2010





## INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

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, 2010, and have issued our report thereon dated December 7, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2009-10*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Compliance with the requirements of laws, regulations, contracts, and grants listed below is the responsibility of Morgan Hill Unified School District's management. 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	8	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
Instructional Materials:		
General requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early retirement incentive	4	Not Applicable
Gann limit calculation	1	Yes
School Accountability Report Card	3	Yes
Public hearing requirement - receipt of funds	1	Yes



	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Class Size Reduction Program (including in Charter Schools):		
General requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	Not Applicable
District or charter schools with only one school serving K-3	4	Not Applicable
After School Education and Safety Program		
General requirements	4	Yes
After school	4	Yes
Before school	5	Not Applicable
Charter Schools:		
Contemporaneous records of attendance	1	Not Applicable
Mode of instruction	1	Not Applicable
Non classroom-based instruction/independent study	15	Not Applicable
Determination of funding for non classroom-based instruction	3	Not Applicable
Annual instruction minutes classroom based	3	Not Applicable

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

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

This report is intended solely for the information and use of the governing board, management, the California Department of Education, the State Controller's Office, the California Department of Finance, 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.

*Laurine K. Trine, Day & Co., LLP*

Palo Alto, California  
December 7, 2010

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

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# MORGAN HILL UNIFIED SCHOOL DISTRICT

## SUMMARY OF AUDITOR'S RESULTS FOR THE YEAR ENDED JUNE 30, 2010

### FINANCIAL STATEMENTS

Type of auditor's report issued:

Unqualified

Internal control over financial reporting:

Material weaknesses identified?

No

Significant deficiencies identified?

Yes

Noncompliance material to financial statements noted?

No

### FEDERAL AWARDS

Internal control over major programs:

Material weaknesses identified?

No

Significant deficiencies identified?

None reported

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

Unqualified

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

No

Section .510(a) of OMB A-133

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

84.010, 84.389 (ARRA)

Title I -Basic Grants Low Income and Neglected  
(including ARRA)

84.027, 84.391 (ARRA),  
84.173, 84.173A, 84.027A,  
84.392 (ARRA)

Special Education Cluster (including ARRA)

84.394 (ARRA)

State Fiscal Stabilization Funds (ARRA)

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

\$ 310,360

Auditee qualified as low-risk auditee?

Yes

### STATE AWARDS

Internal control over State programs:

Material weaknesses identified?

No

Significant deficiencies identified?

None reported

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

Unqualified



# MORGAN HILL UNIFIED SCHOOL DISTRICT

## FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2010

The following findings represent significant deficiencies, material weaknesses, and/or instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. The findings have been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
30000	Internal Control

### 2010-1     Audit Adjustment Code 30000

#### Criteria or Specific Requirements

Management is responsible for implementing and maintaining internal controls over financial reporting that provide management with reasonable, but not absolute, assurance that transactions are executed and recorded properly to permit the preparation of the financial statement in accordance with general accepted accounting principles.

#### Condition

During the audit, we noted that the District had omitted fourth quarter unrestricted state lottery entitlement. As a result, audit adjustments were made in the amount of \$147,058 to accounts receivable in the General Fund.

#### Questioned costs

None. The receivables were properly recorded and included in the audited financial statements through an audit adjustment.

#### Context

The District initially calculated the amount to be accrued as a year-end receivable, but miscommunication caused the entry to be omitted from the accounting system.

#### Effect

Accounts receivable was understated by \$147,058.

#### Cause

Miscommunication caused the receivables to be left out of year end accruals.

#### 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.

# **MORGAN HILL UNIFIED SCHOOL DISTRICT**

## **FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2010**

### **District Response**

The Business Services department has reviewed with staff its internal control policies and procedures for recording year end accruals. To ensure there is appropriate training upon the assignment of a new task to staff involving year-end entries, the journal entry will be reviewed and approved by the director or supervisor for accuracy. The Director of Fiscal Services will verify in the District's financials that all entries have been recorded.

**MORGAN HILL UNIFIED SCHOOL DISTRICT**

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2010**

None Reported.



**MORGAN HILL UNIFIED SCHOOL DISTRICT**

**STATE AWARDS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2010**

None Reported.

# **MORGAN HILL UNIFIED SCHOOL DISTRICT**

## **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2010**

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

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

None Reported.

### ***Federal Award Findings***

None Reported.

### ***State Award Findings***

None Reported.

