

MORGAN HILL UNIFIED SCHOOL DISTRICT
COUNTY OF SANTA CLARA
MORGAN HILL, CALIFORNIA

AUDIT REPORT

JUNE 30, 1998

MORGAN HILL UNIFIED SCHOOL DISTRICT

JUNE 30, 1998

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FINANCIAL SECTION



C E R T I F I E D
P U B L I C
A C C O U N T A N T S

RICHARD J. GOODELL, CPA
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INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

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

We have audited the combined and combining financial statements of Morgan Hill Unified School District as of and for the year ended June 30, 1998, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraphs, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. 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 opinion.

Lack of certain internal control procedures and supporting records limits us to expressing an independent accountant's opinion on recorded transactions of the Student Body Fund (see Note 11).

The District does not maintain a complete record of the historical cost of its fixed assets. Accordingly, the financial statements do not include the general fixed assets group of accounts, which should be included in order to conform with generally accepted accounting principles. The amount that should be recorded in the general fixed assets account group is not known.

In our opinion, except for any adjustments, if any, as might have been determined to be necessary had we been able to examine sufficient evidence regarding the Student Body revenues, and except for effect on the financial statements of the omission of the general fixed asset account group, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Morgan Hill Unified School District at June 30, 1998, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles. Also, in our opinion, the combining financial statements referred to above present fairly, in all material respects, the financial position of each individual fund of the Morgan Hill Unified School District at June 30, 1998, and the results of operations of such funds for the year then ended, in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated October 15, 1998 on our consideration of Morgan Hill Unified School District's internal controls over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Goodell, Porter & Fredericks, LLP

GOODELL, PORTER & FREDERICKS, LLP
Certified Public Accountants

October 15, 1998

MORGAN HILL UNIFIED SCHOOL DISTRICT
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUP
JUNE 30, 1998

	Governmental Fund Types		
	General	Special Revenues	Debt Service
ASSETS			
Cash in County Treasury (Note 2)	\$ 4,842,048	\$ 1,374,399	\$ 4,763,605
Cash on Hand and in Bank (Note 2)	139,863	4,854	
Cash in Revolving Fund (Note 2)	14,500	2,000	
Investments (Note 2)		215,180	3,244,175
Accounts Receivable (Note 4)			
Federal Government	269,476	148,834	
State Governments	655,182	285,801	
Local Governments	260,732		
Interest	165,514	23,893	
Miscellaneous	28,312	8,083	
Due from Other Funds (Note 5)	179,881	24,297	
Stores Inventory (Note 1G)	239,132	24,985	
Prepaid Expenses	2,739		
Amount Available in Debt Service			
Amount to be Provided for:			
Retirement of General Long-Term Debt			
Total Assets	\$ 6,797,379	\$ 2,112,326	\$ 8,007,780
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 1,814,461	\$ 86,792	
Due to Other Funds (Note 5)	24,297	127,812	
Deferred Income	977,220		
Due to Student Groups			
Compensated Absences (Note 1H)			
General Obligation Bonds Payable (Note 6)			
Certificates of Participation (Note 7)			
Capital Leases (Note 8)			
Total Liabilities	2,815,978	214,604	
Fund Balances (Note 1I)			
Legally Restricted	508,210		
Reserved	256,371	26,985	
Unreserved:			
Designated Fund Balances	2,050,148	630,378	\$ 3,244,175
Undesignated Fund Balances	1,166,672	1,240,359	4,763,605
Total Fund Balance	3,981,401	1,897,722	8,007,780
Total Liabilities and Fund Balance	\$ 6,797,379	\$ 2,112,326	\$ 8,007,780

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

Fiduciary Fund		Account Group	Totals (Memorandum Only)	
Capital Projects	Trust and Agency		June 30	
		General Long-Term Debt	1998	1997 (Restated)
\$ 11,462,837	\$ 175,939		\$ 22,442,889	\$ 16,988,210
60,693			381,349	602,551
			16,500	16,500
			3,459,355	3,395,576
			418,310	
			940,983	
153,127			260,732	
			342,534	
			36,395	1,654,939
83,468			287,646	216,844
			264,117	247,783
			2,739	1,839
		\$ 8,007,780	8,007,780	8,243,996
		5,840,776	5,840,776	9,264,550
\$ 11,760,125	\$ 175,939	\$ 13,848,556	\$ 42,702,105	\$ 40,632,788
\$ 281,779			\$ 2,183,032	\$ 1,411,877
135,537			287,646	216,844
			977,220	616,132
	164,858		164,858	164,083
		\$ 221,624	221,624	150,614
		1,055,000	1,055,000	1,535,000
		12,385,000	12,385,000	15,600,000
		186,932	186,932	222,932
417,316	164,858	13,848,556	17,461,312	19,917,482
			508,210	
			283,356	275,398
250,000			6,174,701	5,790,171
11,092,809	11,081		18,274,526	14,649,737
11,342,809	11,081	0	25,240,793	20,715,306
\$ 11,760,125	\$ 175,939	\$ 13,848,556	\$ 42,702,105	\$ 40,632,788

MORGAN HILL UNIFIED SCHOOL DISTRICT
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1998

	Governmental Fund Types		
	General	Special Revenues	Debt Service
REVENUES			
Revenue Limit Sources:			
State Apportionments	\$ 10,508,104	\$ 311,300	
Local Sources	23,614,136		
Total Revenue Limit	34,122,240	311,300	
Federal Revenue	1,067,475	870,193	
Other State Revenue	7,629,587	695,428	\$ 76,291
Other Local Revenue	1,510,990	1,026,097	4,109,934
Interest Income	473,538	93,674	217,942
Total Revenues	44,803,830	2,996,692	4,404,167
EXPENDITURES			
Certificated Salaries	23,794,056	315,843	
Classified Salaries	6,557,268	592,022	
Employee Benefits	6,532,017	236,825	
Books and Supplies	2,377,220	947,707	
Services and Other			
Operating Expenditures	3,579,618	771,131	12,624
Capital Outlay	878,814	41,389	
Debt Service:			
Principal Retirement			3,695,000
Interest and Fiscal Charges			823,925
Other Expenditures	209,687	165,865	
Total Expenditures	43,928,680	3,070,782	4,531,549
Excess of Revenues Over (Under) Expenditures	875,150	(74,090)	(127,382)
Other Financing Sources (Uses):			
Operating Transfers In	52,069	227,279	4,461,822
Operating Transfers Out	(346,607)		(4,461,822)
Other Sources			(17,469)
Other Uses			(91,365)
Total Other Financing Sources (Uses)	(294,538)	227,279	(108,834)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	580,612	153,189	(236,216)
Fund Balances - July 1, 1997 (Restated - Note 14)	3,400,789	1,744,533	8,243,996
Fund Balances - June 30, 1998	\$ 3,981,401	\$ 1,897,722	\$ 8,007,780

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

Capital Projects	Fiduciary Fund Type Expendable Trust	Totals (Memorandum Only)	
		1998	June 30 1997 (Restated)
		\$ 10,819,404	\$ 10,148,793
		23,614,136	21,005,195
		34,433,540	31,153,988
		1,937,668	1,860,123
\$ 225,000		8,626,306	8,771,213
2,453,956	\$ 1,000	9,101,977	9,347,051
508,794	313	1,294,261	
3,187,750	1,313	55,393,752	51,132,375
		24,109,899	22,623,535
4,643		7,153,933	6,836,528
444		6,769,286	6,646,787
362	3,474	3,328,763	3,115,262
1,071,754		5,435,127	4,541,841
31,754		951,957	1,442,838
36,000		3,731,000	3,300,000
		823,925	1,003,563
		375,552	280,034
1,144,957	3,474	52,679,442	49,790,388
2,042,793	(2,161)	2,714,310	1,341,987
345,100		5,086,270	4,492,191
(277,841)		(5,086,270)	(4,492,191)
1,920,011		1,902,542	(45,986)
		(91,365)	
1,987,270	0	1,811,177	(45,986)
4,030,063	(2,161)	4,525,487	1,296,001
7,312,746	13,242	20,715,306	19,419,305
\$ 11,342,809	\$ 11,081	\$ 25,240,793	\$ 20,715,306

MORGAN HILL UNIFIED SCHOOL DISTRICT
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 1998

	General Fund			Special Revenue Funds		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Revenue Limit Sources:						
State Apportionments	\$ 11,006,027	\$ 10,508,104	\$ (497,923)	\$ 338,555	\$ 311,300	\$ (27,255)
Local Sources	23,052,805	23,614,136	561,331			
Total Revenue Limit	34,058,832	34,122,240	63,408	338,555	311,300	(27,255)
Federal Revenue	1,304,148	1,067,475	(236,673)	873,819	870,193	(3,626)
Other State Revenue	8,934,027	7,629,587	(1,304,440)	837,767	695,428	(142,339)
Other Local Revenue	1,566,882	1,510,990	(55,892)	995,175	1,026,097	30,922
Interest Income	465,771	473,538	7,767	89,716	93,674	3,958
Total Revenues	46,329,660	44,803,830	(1,525,830)	3,135,032	2,996,692	(138,340)
EXPENDITURES						
Certificated Salaries	24,261,452	23,794,056	467,396	319,243	315,843	3,400
Classified Salaries	6,731,930	6,557,268	174,662	597,835	592,022	5,813
Employee Benefits	6,728,060	6,532,017	196,043	240,867	236,825	4,042
Books and Supplies	3,151,381	2,377,220	774,161	943,531	947,707	(4,176)
Services and Other						
Operating Expenditures	4,256,226	3,579,618	676,608	818,603	771,131	47,472
Capital Outlay	1,520,077	878,814	641,263	80,149	41,389	38,760
Debt Service:						
Principal Retirement						
Interest and Fiscal Charges						
Other Expenditures	389,952	209,687	180,265	170,687	165,865	4,822
Total Expenditures	47,039,078	43,928,680	3,110,398	3,170,915	3,070,782	100,133
Excess of Revenues Over (Under) Expenditures	(709,418)	875,150	1,584,568	(35,883)	(74,090)	(38,207)
Other Financing Sources (Uses):						
Operating Transfers In	453,688	52,069	(401,619)	227,279	227,279	
Operating Transfers Out	(413,795)	(346,607)	67,188	(364,000)		364,000
Other Sources						
Other Uses						
Total Other Financing Sources (Uses)	39,893	(294,538)	(334,431)	(136,721)	227,279	364,000
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ (669,525)	580,612	\$ 1,250,137	\$ (172,604)	153,189	\$ 325,793
Fund Balances - July 1, 1997		3,400,789			1,744,533	
Fund Balances - June 30, 1998		\$ 3,981,401			\$ 1,897,722	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

Debt Service Funds			Capital Projects Funds			Totals (Memorandum Only)		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
						\$ 11,344,582	\$ 10,819,404	\$ (525,178)
						23,052,805	23,614,136	561,331
						34,397,387	34,433,540	36,153
						2,177,967	1,937,668	(240,299)
\$ 76,291	\$ 76,291		4 225,000	\$ 225,000		10,073,085	8,626,306	(1,446,779)
4,212,555	4,109,934	\$ (102,621)	1,691,800	2,453,956	\$ 762,156	8,466,412	9,100,977	634,565
	217,942	217,942	308,788	508,794	200,006	864,275	1,293,948	429,673
4,288,846	4,404,167	115,321	2,225,588	3,187,750	962,162	55,979,126	55,392,439	(586,687)
						24,580,695	24,109,899	470,796
			4,742	4,643	99	7,334,507	7,153,933	180,574
			527	444	83	6,969,454	6,769,286	200,168
			1,900	362	1,538	4,096,812	3,325,289	771,523
12,624	12,624		792,961	1,071,754	(278,793)	5,880,414	5,435,127	445,287
			164,608	31,754	132,854	1,764,834	951,957	812,877
	3,695,000	(3,695,000)	36,000	36,000		36,000	3,731,000	(3,695,000)
	823,925	(823,925)					823,925	(823,925)
						560,639	375,552	185,087
12,624	4,531,549	(4,518,925)	1,000,738	1,144,957	(144,219)	51,223,355	52,675,968	(1,452,613)
4,276,222	(127,382)	(4,403,604)	1,224,850	2,042,793	817,943	4,755,771	2,716,471	(2,039,300)
	4,461,822	4,461,822	345,101	345,100	(1)	1,026,068	5,086,270	4,060,202
(4,526,401)	(4,461,822)	64,579	(248,273)	(277,841)	(29,568)	(5,552,469)	(5,086,270)	466,199
	(17,469)	(17,469)	1,933,911	1,920,011	(13,900)	1,933,911	1,902,542	(31,369)
	(91,365)	(91,365)					(91,365)	(91,365)
(4,526,401)	(108,834)	4,417,567	2,030,739	1,987,270	(43,469)	(2,592,490)	1,811,177	4,403,667
\$ (250,179)	(236,216)	\$ 13,963	\$ 3,255,589	4,030,063	\$ 774,474	\$ 2,163,281	4,527,648	\$ 2,364,367
	8,243,996			7,312,746			20,702,064	
\$ 8,007,780			\$ 11,342,809			\$ 25,229,712		

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1998

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Policies

The District accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's California School Accounting Manual. The accounting policies of the District conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants.

B. Reporting Entity

The Morgan Hill Unified School District (the "District") and the Morgan Hill Unified School District School Building Corporation (the "Corporation") have a financial and operational relationship which meets the reporting entity definition criteria of the (GASB) Codification of Governmental Accounting and Financial Reporting Standards, Section 2100, for inclusion of the corporation as a component unit of the District. Accordingly, the financial activities of the Corporation have been included in the accompanying financial statements of the District.

The Corporation

The Corporation is a nonprofit, public benefit corporation incorporated under the laws of the State of California and recorded by the Secretary of State on April 30, 1973. The Corporation was formed for the sole purpose of providing financing assistance to the District for the construction and acquisition of major capital facilities. Upon completion, the District intends to occupy all corporation facilities under a lease-purchase agreement effective through the year 2000. The end of the lease term, title of all corporation property will pass to the District for no additional consideration.

Due to the nature of the Corporation's accounting methods, it was not practicable to integrate each separate fund of the corporation with other funds of the District. Accordingly, in the accompanying financial statements the Corporation's financial activity has been restated to conform with school fund accounting and is presented as the Corporation Debt Service fund under the Debt Service fund category, and as the Corporation Building Fund under the Capital Project Fund category.

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1998

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Reporting Entity (Concluded)

The following are those aspects of the relationship between the District and the Corporation which satisfy GASB Codification Section 2100 criteria.

Manifestations of Oversight

The Corporation's Board of Directors were appointed by the District's Board of Trustees, all of whom required approval for membership by a resolution of the Governing board of the District.

The District is able to impose its will upon the Corporation, based on the following:

- All major financing arrangements, contracts, and other transactions of the Corporation must have the consent of the District.
- The District exercised significant influence over operations of the Corporation as it is anticipated that the District will be the sole lessee of all facilities owned by the Corporation. Likewise, it is anticipated that the District's lease payments will be the sole revenue source of the Corporation.

Accountability

The Corporation provides specific financial benefits or imposes specific financial burdens on the District based upon the following:

- Any deficits incurred by the Corporation will be reflected in the lease payments of the District.
- Any surpluses of the Corporation revert to the District at the end for the lease period.

Scope of Public Service

The Corporation was created for the sole purpose of financially assisting the District.

Financial Presentation

For financial presentation purposes, the Corporation's financial activity has been blended, or combined, with the financial data of the District. The financial statements present the Corporation's financial activity within the Corporation Building Fund and the Corporation Debt Service Fund. Certificates of Participation issued by the Corporation are included in the General Long-Term Debt Account Group.

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1998

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Fund Accounting

The accounts of the District are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, as appropriate. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be sent and the means by which spending activities are controlled. The District's accounts are organized into three broad categories which in aggregate include six fund types and one account group as follows:

GOVERNMENTAL FUNDS

General Fund is the general operating fund of the District. It is used to account for all financial resources except those require to be accounted for in another fund.

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The District maintains five special revenue funds:

1. Deferred Maintenance Fund is used for the purpose of major repair or replacement of District property.
2. Cafeteria Fund is used to account for revenues received and expenditures made to operate the District's cafeteria program.
3. Adult Education Fund is used to account for resources committed to adult education programs maintained by the District.
4. Child Development Fund is used to account for resources committed to child development programs maintained by the District.
5. Special Reserve Fund is used to account for revenues reserved by the Board of Trustees for a specific program or project.

Debt Service Funds are used to account for the accumulation of resources for, and the payment of general long-term debt principal, interest and related costs. The District maintains three debt service funds:

1. Tax Override Fund is used to account for the accumulation of resources from ad valorem tax levies for the repayment of certificates of participation and general bonded indebtedness. These taxes will continue to be levied until the indebtedness is fully paid.

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1998

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Fund Accounting (Concluded)

Debt Service Fund (Concluded)

2. Corporation Debt Service Fund - Bonds is to account for the interest and redemption of principal of General Obligation bonds issued by the Morgan Hill Unified School District.
3. Corporation Debt Service Fund - COPs is used to account for the interest and redemption of principal of certificates of participation issued by the Morgan Hill Unified School district School Building Corporation.

Capital Projects Funds are used to account for the acquisition and/or construction of all major governmental fixed assets. The District maintains four capital project funds:

1. Mello-Roos Fund is used to account for the accumulation of resources received from the Mello-Roos Assessment District.
2. Building Fund is used to account for the acquisition of major governmental capital facilities and building from the sale of bond proceeds.
3. Capital Facilities Fund is use to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act.
4. Roof Replacement Fund is used to account for the proceeds from the State Lease-Purchase Roof Replacement program allocation and the District's match, to be used for roof replacement.

FIDUCIARY FUNDS:

Expendable Trust Funds are used to account for assets held by the District as trustee. The District maintains one expendable trust fund. The Scholarship Fund, which is used to provide financial assistance to students of the District.

Agency Funds are used to account for assets of others for which the District acts as an agent. The District maintains agency funds to account for the activities of the various student body clubs and activities at the High School and both middle schools.

ACCOUNT GROUP

The accounting and reporting treatment applied to the long-term liabilities associated with a fund are determined by its measurement focus. All governmental funds and expendable trust funds are accounted for on a spending, or "financial flow", measurement focus. This means that only current assets and current liabilities are generally included on their balance sheet. Their reported fund balance is considered a measure of "available spendable resources". Thus, the long-term liabilities associated with governmental funds and expendable trust funds are accounted for in the account group of the District.

General Long-Term Debt Account Group accounts for long-term liabilities expected to be financed from governmental funds.

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1998

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied.

Governmental funds are generally accounted for using the modified accrual basis of accounting. Their revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current fiscal period. Expenditures are recognized in the accounting period in which the liability is incurred (when goods are received or services rendered).

Trust and agency type fund assets and liabilities are also accounted for on the modified accrual basis.

E. Budgets and Budgetary Accounting

By state law, the District's governing board must adopt a final budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements.

These budgets are revised by the District's governing board and District superintendent during the year to give consideration to unanticipated revenue and expenditures. It is this final revised budget that is presented in the financial statements.

Formal budgetary integration was employed as a management control device during the year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account. (See Note 3.) The District did not adopt budgets for the Corporation Debt Service-Bond, Corporation Debt Service – COPs and Mello-Roos Funds.

F. Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated at June 30.

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1998

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Inventories

Inventory is recorded using the purchase method in that the cost is recorded as an expenditure at the time individual inventory items are purchased. Inventory is valued at average cost and consists of expendable supplies held for consumption. Reported inventories are equally offset by a fund balance reserve which indicates that these amounts are not "available for appropriation and expenditure" even though they are a component of net current assets.

H. Compensated Absences

Accumulated unpaid employee vacation benefits are recognized as liabilities of the District. This liability is recognized in the General Long-Term Debt Account Group. The value of accumulated vacation at June 30, 1998 was estimated at \$221,624.

Accumulated sick leave benefits are not recognized as liabilities of the District as rights to these benefits do not rest with the employee. Therefore, sick leave benefits are recorded as an operating expense in the period taken. Unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires.

I. Fund Balance Reserves and Designations

Reservations of the ending fund balance indicate the portions of fund balance not appropriable for expenditure or amounts legally segregated for a specific future use. The Reserve for Revolving Fund, Reserve for Prepaid Expenses and Reserve for Stores Inventory reflect the portions of fund balance represented by revolving fund cash, prepaid expenses and store inventory, respectively. These amounts are not available for appropriation and expenditure at the balance sheet date.

The legally restricted fund balances include amounts received but not yet spent for the following programs:

Instructional Materials	\$ 160,070
Tenth Grade Counseling	2,116
School Site Block Grant	334,188
Gifted and Talented	<u>11,836</u>
Total	<u>\$ 508,210</u>

Fund balances are reserved as follows:

	General Fund	Cafeteria Fund	Adult Education Fund	Totals
Reserved for Revolving Cash	\$ 14,500	\$ 1,000	\$1,000	\$ 16,500
Reserved for Stores Inventory	239,132	24,985		264,117
Reserved for Prepaid Assets	<u>2,739</u>	<u></u>	<u></u>	<u>2,739</u>
	<u>\$256,371</u>	<u>\$25,985</u>	<u>\$1,000</u>	<u>\$283,356</u>

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1998

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Fund Balance Reserves and Designations

Designations of the ending fund balance indicate tentative plans for financial resource utilization in a future period.

The designation for debt service represents that portion of the fund balance which the District plans to expend on debt repayment in the ensuing year.

The Designated Fund Balance represents the following:

	General Fund	Deferred Maintenance Fund	Cafeteria Fund	Special Reserve	Capital Facilities Fund	Total
Designated for economic Uncertainties	\$1,330,167		\$52,073			\$1,382,240
Designated for Medi-Cal	13,306					13,306
Designated for Bus Reserve	358,305			\$358,305		716,610
Designated for Certificated Staff needs	100,000					100,000
Designated for Student Software Application	141,000					141,000
Designated for LOHS Textbooks	10,000					10,000
Designated for Adult Ed Transfer	3,939					3,939
Designated for Playground Safety	10,000					10,000
Designated for Light Retro-fits	80,900					80,900
Designated for Categoricals	2,531					2,531
Designated for Future Repairs		\$220,000				220,000
Designated for CSR Facilities					\$250,000	250,000
Total	<u>\$2,050,148</u>	<u>\$220,000</u>	<u>\$52,073</u>	<u>\$358,305</u>	<u>\$250,000</u>	<u>\$2,930,526</u>

J. Property Tax

Secured property taxes attach as an enforceable lien on property as of March 1. Taxes are payable in two installments on November 15 and March 15. Unsecured property taxes are payable in one installment on or before August 31. The County of Santa Clara bills and collects taxes for the District. Tax revenues are recognized by the District when received.

K. Total Columns on Combined Statements

Total columns on the Combined Statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1998

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

L. Deferred Income

The District received funds for certain programs for which qualifying expenditures have not been made, resulting in income that cannot be recognized until such expenditures are incurred.

NOTE 2 – CASH AND INVESTMENTS

Cash at June 30, 1998 consisted of the following:

Deposits:

Cash on Hand and in Banks	\$ 381,349
Cash in Revolving Fund	16,500
Pooled Fund:	
Cash in County Treasury	22,442,889

Cash balances held in banks and in revolving funds are insured up to \$100,000 by the Federal Depository Insurance Corporation. All cash held by the financial institutions is fully insured or collateralized.

The District maintains substantially all of its cash in the Santa Clara County Treasury. The County pools these funds with those of other Santa Clara County schools and special districts. These pooled funds are carried at cost which approximates market value. Interest earned is deposited quarterly in the participating funds. Any investment losses are proportionately shared by all funds in the pool. Governmental Accounting Standards Board statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* requires adjustment of investments to fair value. However, the District's financial statements do not reflect such an adjustment as the difference between total investment cost and fair value has been determined to be immaterial.

The County may invest in accordance with Section 53601 and 53635 of the California Government Code:

- Local agency bonds, notes or warrants within the state
- United States Treasury instruments
- Registered state warrants or treasury notes
- Securities of the U.S. Government, or its agencies
- Bankers acceptances
- Commercial paper
- Certificates of deposit (or time deposits) placed with commercial banks and/or savings and loan companies
- Repurchase or reverse repurchase agreements
- Medium term corporate notes

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1998

NOTE 2 – CASH AND CASH INVESTMENTS (CONCLUDED)

- Shares of beneficial interest issued by diversified management companies
- Certificates of participation
- Obligations with first priority security
- Collateralized mortgage obligations

Investments at June 30, 1998, held on behalf of the Morgan Hill Unified School District, are presented below, categorized separately to give an indication of the level of risk associated with each investment:

	<u>Category*</u>		<u>Carrying</u>	<u>Market</u>
	<u>1</u>	<u>2</u>	<u>Amount</u>	<u>Value</u>
Local Agency				
Investment Fund	\$ 215,180	\$ -	\$ 215,180	\$ 215,262
Government Securities	<u>3,244,175</u>	<u>\$ -</u>	<u>3,244,175</u>	<u>3,240,589</u>
Total Investments	<u>\$ 3,459,355</u>	<u>\$ 0</u>	<u>\$ 3,459,355</u>	<u>\$ 3,455,851</u>

* Category 1 includes investments that are insured or collateralized.

Category 2 includes investments that are not insured or collateralized.

NOTE 3 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Excess of expenditures over appropriations in individual funds are as follows:

Special Revenue Fund:

Adult Education:

Books and Supplies \$ 4,176

Contract Services 774

Capital Projects Funds:

Building fund:

Contract Services 275,048

Capital Facilities:

Operating Transfers Out 29,220

Roof Replacement:

Operating Transfers Out 349

The District incurred unanticipated expenditures and operating transfers out for which the budget was not revised.

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1998

NOTE 4 – ACCOUNTS RECEIVABLE

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Projects</u>	<u>Totals</u>
Federal Government				
Categorical Aid Programs	<u>\$ 269,476</u>	<u>\$ 148,834</u>	<u>\$ -</u>	<u>\$ 418,310</u>
State Government				
Categorical Aid Programs	\$ 53,815	\$ 34,846	\$ -	\$ 88,661
State Aid		44,934		44,934
Lottery	510,076	-	-	510,076
Class Size Reduction	49,550	-	-	49,550
Deferred Maintenance	-	206,021	-	206,021
Other	<u>41,741</u>	<u>-</u>	<u>-</u>	<u>41,741</u>
Total State	<u>\$ 655,182</u>	<u>\$285,801</u>	<u>\$ -</u>	<u>\$ 940,983</u>
Local Governments	<u>\$ 260,732</u>			<u>\$ 260,732</u>
Interest	<u>\$ 165,514</u>	<u>\$ 23,893</u>	<u>\$153,127</u>	<u>\$ 342,534</u>
Miscellaneous	<u>\$ 28,312</u>	<u>\$ 8,083</u>		<u>\$ 36,395</u>

NOTE 5 – INTERFUND TRANSACTIONS

Interfund Receivables and Payables

Individual fund interfund receivables and payables balances as of June 30, 1998 are as follows:

	<u>Receivable</u>	<u>Payable</u>
General Fund	\$179,881	\$ 24,297
Deferred Maintenance		699
Cafeteria	1,356	108,984
Adult Education	22,941	16,089
Child Development		2,040
Building fund		83,468
Capital Facilities Fund	83,468	51,720
Roof Replacement Fund	<u>-</u>	<u>349</u>
Total	<u>\$287,646</u>	<u>\$287,646</u>

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1998

NOTE 5 – INTERFUND TRANSACTIONS (CONCLUDED)

Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving revenue to funds through which the resources are to be expended.

Interfund transfers for the year ended June 30, 1998 were as follows:

Transfer from the General Fund to the Deferred Maintenance Fund to meet the state match requirements	\$ 206,021
Transfer from the General Fund to the Adult Education Fund to cover operating expenses	11,188
Transfer from the General Fund to the Special Reserve Fund to cover operating expenses	10,070
Transfer from the Capital Facilities Fund to the General Fund for indirect costs for impact fee collection	51,720
Transfer from the General Fund to the Roof Replacement Fund to meet the state match requirements	119,328
Transfer from the Building Fund to the Capital Facilities Fund for the partial repayment of capital loan	225,772
Transfer from the Roof Replacement Fund to the General Fund to close the fund	349
Transfer from the Tax Override Fund to the Corporate Debt Service – Bonds Fund to provide resources for debt principal and interest payments	539,830
Transfer from the Tax Override Fund to the Corporate Debt Service – COPs Fund to provide resources for debt principal and interest payments	<u>3,921,992</u>
Total Transfers	<u>\$ 5,086,270</u>

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1998

NOTE 6 – GENERAL BONDED INDEBTEDNESS

In September 1973, the Morgan Hill Unified School District Building Corporation issued lease rental revenue bonds in the amount of \$6,720,000 with interest rates ranging from 5.25 to 5.5 percent. At June 30, 1998 the principal balance outstanding was \$1,535,000.

The bonds mature as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1999	\$ 510,000	\$ 44,000	\$ 554,000
2000	<u>545,000</u>	<u>14,988</u>	<u>559,988</u>
Totals	<u>\$ 1,055,000</u>	<u>\$ 58,988</u>	<u>\$ 1,113,988</u>

NOTE 7 – CERTIFICATES OF PARTICIPATION

The District has issued the following Certificates of Participation:

<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Outstanding July 1, 1997</u>	<u>Current Year Redeemed</u>	<u>Outstanding June 30, 1998</u>
1991	5.0 – 6.0	2001	\$ 6,595,000	\$ 4,070,000	\$ 935,000	\$ 3,135,000
1992	4.5 – 5.9	2001	6,850,000	4,215,000	970,000	3,245,000
1993	3.1 – 5.0	2001	7,470,000	5,575,000	1,000,000	4,575,000
1994	3.75 – 5.3	2001	<u>2,155,000</u>	<u>1,740,000</u>	<u>310,000</u>	<u>1,430,000</u>
			<u>\$23,070,000</u>	<u>\$15,600,000</u>	<u>\$3,215,000</u>	<u>\$12,385,000</u>

Annual maturities of Certificates as of June 30, 1997 are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1991 Issue:			
1999	\$ 985,000	\$ 56,638	\$1,041,638
2000	1,045,000	62,700	1,107,700
2001	<u>1,105,000</u>	<u>66,300</u>	<u>1,171,300</u>
Totals	<u>\$3,135,000</u>	<u>\$ 185,638</u>	<u>\$3,320,638</u>

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1998

NOTE 7 – CERTIFICATES OF PARTICIPATION (CONCLUDED)

<u>Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1992 Issue:			
1999	\$1,020,000	\$ 58,140	\$1,078,140
2000	1,080,000	62,640	1,142,640
2001	<u>1,145,000</u>	<u>67,555</u>	<u>1,212,555</u>
Totals	<u>\$3,245,000</u>	<u>\$ 188,335</u>	<u>\$3,433,335</u>
1993 Issue:			
1999	\$1,230,000	\$ 57,810	\$1,287,810
2000	1,510,000	72,480	1,582,480
2001	<u>1,835,000</u>	<u>91,750</u>	<u>1,926,750</u>
Totals	<u>\$4,575,000</u>	<u>\$ 222,040</u>	<u>\$4,797,040</u>
1994 Issue:			
1999	\$ 385,000	\$ 19,058	\$ 404,058
2000	470,000	23,970	493,970
2001	<u>575,000</u>	<u>30,475</u>	<u>605,475</u>
Totals	<u>\$1,430,000</u>	<u>\$ 73,503</u>	<u>\$1,503,503</u>

NOTE 8 – CAPITALIZED LEASE OBLIGATIONS

The District leases equipment under agreements which provide for title to pass upon expiration of the lease period. Future minimum lease payments are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Lease Payment</u>
1999	\$ 36,000
2000	36,000
2001	<u>114,932</u>
Present value of net minimum lease payments	<u>\$186,932</u>

The District will receive no sublease rental revenues nor pay and contingent rentals for this equipment. There is no interest included in the lease payments for the lease obligation.

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1998

NOTE 9 – LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 1998 is shown below:

	Balance July 1, 1997	Additions	Deductions	Balance June 30, 1998
General Obligation Bonds (Note 6)	\$ 1,535,000	\$ -	\$ 480,000	\$ 1,055,000
Certificates of Participation (Note 7)	15,600,000	-	3,215,000	12,385,000
Capitalized lease obligations (Note 8)	222,932	-	36,000	186,932
Compensated absences (Note 1H)	<u>150,614</u>	<u>71,010</u>		<u>221,624</u>
Totals	<u>\$17,508,546</u>	<u>\$ 71,010</u>	<u>\$3,731,000</u>	<u>\$13,848,556</u>

NOTE 10 – EMPLOYEE RETIREMENT SYSTEMS

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

Plan Description and Provisions

State Teachers' Retirement System (STRS)

Plan Description. The Morgan Hill Unified School District contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability, 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 STRS annual financial report may be obtained from the STRS, 7667 Folsom Boulevard, Sacramento, California 95826.

Funding Policy. Active plan members are required to contribute 8.0% of their salary and the Morgan Hill Unified School District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 1997-98 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The Morgan Hill Unified School District's contributions to STRS for the fiscal year ending June 30, 1998, 1997, and 1996 were \$1,845,062, \$1,785,984, and \$1,626,810, respectively, and equal 100% of the required contributions for each year.

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1998

NOTE 10 - EMPLOYEE RETIREMENT SYSTEMS (CONCLUDED)

California Public Employees Retirement System (CalPERS)

Plan Description. The Morgan Hill Unified School 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 Law. 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 95814.

Funding Policy. Active plan members are required to contribute 7.0% of their salary (7% of monthly salary over \$133.33 if the member participates in Social Security) and the Morgan Hill Unified School 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 required employer contribution rate for fiscal 1997/98 was 6.172% of annual payroll (decreasing to 6.033% of pay under a special funding situation effective with the January 1998 payroll period due to the State's direct reimbursement to CalPERS of the cost for certain legislated benefit increases in the plan). The contribution requirements of the plan members are established by State statute. The Morgan Hill Unified School District's contributions to CalPERS for the fiscal year ending June 30, 1998, 1997 and 1996 were \$591,103, \$442,873 and \$366,167, respectively and equal 100% of the required contributions for each year.

Other Information

Under STRS law, certain early retirement incentives require the employer to pay the present value of the additional benefit which may be paid on either a current or deferred basis. The District has no obligation to STRS for early retirement incentives granted to terminated employees.

NOTE 11 - STUDENT BODY FUND

The Student Body Funds often engage in activities which involve cash transactions. These transactions are not subject to adequate internal accounting control prior to deposits being recorded in the bank accounts. It has been determined on a cost benefit basis that providing increased internal control in this area does not justify the additional costs that would be necessary to control receipts prior to the point of deposit.

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1998

NOTE 12 – COMMITMENTS AND CONTINGENCIES

State and Federal Allowance, Award, and Grants

The district has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursement will not be material.

NOTE 13 – JOINT VENTURES

The District participates in a joint power authority ("JPA"), the Santa Clara County Schools Insurance Group ("SIG"). The relationship between the District and the JPA is such that the JPA is not a component unit of the Morgan Hill Unified School District for financial reporting purposes.

Santa Clara County Schools Insurance Group – The JPA arranges for and provides workers' compensation, property and liability, and employee benefits insurance for its thirty member school districts. Each member school district has a representative on the Joint Powers Board which governs the management and financing of JPA activities. Each member District pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to their participation in the JPA.

Audited condensed financial information for the year ended June 30, 1997 (the most recent available) is as follows:

Total assets	\$31,176,327
Total liabilities	<u>21,115,090</u>
Fund balance	<u>\$10,061,237</u>
Total revenues	\$19,931,911
Total expenditures	<u>14,263,244</u>
Net increase in fund balance	<u>\$ 5,668,667</u>

The JPA did not have long-term debt outstanding at June 30, 1997. The District's share of year-end assets, liabilities, or accumulated deficit has not been calculated.

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1998

NOTE 14 – RESTATEMENT OF FUND BALANCES

Other state revenue was understated in the Deferred Maintenance Fund at June 30, 1997 by \$106,848. Cash in bank was understated in the Scholarship Fund by \$3,966 at June 30, 1997. The June 30, 1997 fund balances have been restated to reflect the Corrections as follows:

	Deferred Maintenance <u>Fund</u>	Scholarship <u>Fund</u>
Fund Balance, June 30, 1997 as originally reported	\$ 78,739	\$ 9,276
Understatement of other state revenues	106,848	
Understatement of cash in bank	<u> </u>	<u>3,966</u>
Fund Balance, June 30, 1997 as restated	<u>\$ 185,587</u>	<u>\$ 13,242</u>

NOTE 15 – SUBSEQUENT EVENT

On July 2, 1998, the District issued \$6,990,000 in tax and revenue anticipation notes at a premium of \$44,176.80. The notes mature on July 2, 1999 and bear interest at 5.805% (priced to yield 3.740%). Proceeds from the notes can be drawn upon during the year if cash shortages arise.

MORGAN HILL UNIFIED SCHOOL DISTRICT
COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS
JUNE 30, 1998

	Deferred Maintenance	Cafeteria	Adult Education	Child Development	Special Reserve	Totals
ASSETS						
Cash in County Treasury	\$ 138,867	\$ 405,578	\$ 81,889	\$ 20,991	\$ 727,074	\$ 1,374,399
Cash on Hand and in Bank		3,315	1,539			4,854
Cash in Revolving Fund		1,000	1,000			2,000
Investments		215,180				215,180
Accounts Receivable						
Federal Government		119,013	29,821			148,834
State Government	206,021	12,391	44,934	22,455		285,801
Interest	2,062	7,235	2,760	1,729	10,107	23,893
Miscellaneous			8,083			8,083
Due from Other Funds		1,356	22,941			24,297
Stores Inventory		24,985				24,985
Total Assets	\$ 346,950	\$ 790,053	\$ 192,967	\$ 45,175	\$ 737,181	\$ 2,112,326
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts Payable	\$ 1,604	\$ 36,069	\$ 5,984	\$ 43,135		\$ 86,792
Due to Other Funds	699	108,984	16,089	2,040		127,812
Total Liabilities	2,303	145,053	22,073	45,175		214,604
Fund Balances:						
Reserved		25,985	1,000			26,985
Unreserved						
Designated	220,000	52,073			\$ 358,305	630,378
Undesignated	124,647	566,942	169,894		378,876	1,240,359
Total Fund Balances	344,647	645,000	170,894	0	737,181	1,897,722
Total Liabilities and Fund Balances	\$ 346,950	\$ 790,053	\$ 192,967	\$ 45,175	\$ 737,181	\$ 2,112,326

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

MORGAN HILL UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
SPECIAL REVENUE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 1998

	Deferred Maintenance	Cafeteria	Adult Education	Child Development	Special Reserve	Totals
REVENUES						
Revenue Limit Sources:						
State Apportionment			\$ 311,300			\$ 311,300
Federal Sources:						
Child Nutrition Program		\$ 723,611				723,611
Other			146,582			146,582
Other State Sources:						
State Nutrition Program		48,135				48,135
Other	\$ 206,021			\$ 441,272	\$	647,293
Other Local Sources:						
Food Service Sales		924,666				924,666
Interest	4,948	27,452	11,401	9,983	39,890	93,674
Other			101,431			101,431
Total Revenues	210,969	1,723,864	570,714	451,255	39,890	2,996,692
EXPENDITURES						
Certificated Salaries			315,843			315,843
Classified Salaries	6,076	477,729	108,217			592,022
Employee Benefits	1,325	163,206	72,294			236,825
Books and Supplies		908,147	32,304	7,256		947,707
Services and Other						
Operating Expenditures	249,777	47,898	55,508	417,948		771,131
Capital Outlay	351	36,425	4,613			41,389
Other Outgo	401	102,351	37,062	26,051		165,865
Total Expenditures	257,930	1,735,756	625,841	451,255	0	3,070,782
Excess of Revenues Over (Under) Expenditures	(46,961)	(11,892)	(55,127)		39,890	(74,090)
Other Financing Sources (Uses):						
Operating Transfers In	206,021		11,188		10,070	227,279
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	159,060	(11,892)	(43,939)		49,960	153,189
Fund Balances - July 1, 1997	185,587	656,892	214,833		687,221	1,744,533
Fund Balances - June 30, 1998	\$ 344,647	\$ 645,000	\$ 170,894	\$ 0	\$ 737,181	\$ 1,897,722

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

MORGAN HILL UNIFIED SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 SPECIAL REVENUE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 1998

	DEFERRED MAINTENANCE		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Other State Revenue	\$ 312,869	\$ 206,021	\$ (106,848)
Interest Income	4,949	4,948	(1)
Total Revenues	317,818	210,969	(106,849)
EXPENDITURES			
Classified Salaries	6,076	6,076	
Employee Benefits	1,385	1,325	60
Services and Other			
Operating Expenditures	264,949	249,777	15,172
Capital Outlay	352	351	1
Other Expenditures	401	401	
Total Expenditures	273,163	257,930	15,233
Excess of Revenues Over (Under) Expenditures	44,655	(46,961)	(91,616)
Other Financing Sources (Uses): Operating Transfers In	206,021	206,021	
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 250,676	159,060	\$ (91,616)
Fund Balance - July 1, 1997		185,587	
Fund Balance - June 30, 1998		\$ 344,647	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

MORGAN HILL UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
SPECIAL REVENUE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 1998

	CAFETERIA		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Federal Revenue	\$ 721,000	\$ 723,611	\$ 2,611
Other State Revenue	48,000	48,135	135
Other Local Revenue	870,839	924,666	53,827
Interest Income	26,767	27,452	685
Total Revenues	1,666,606	1,723,864	57,258
EXPENDITURES			
Classified Salaries	477,729	477,729	
Employee Benefits	163,404	163,206	198
Books and Supplies	908,147	908,147	
Services and Other Operating Expenditures	47,898	47,898	
Capital Outlay	36,425	36,425	
Other Expenditures	102,353	102,351	2
Total Expenditures	1,735,956	1,735,756	200
Excess of Revenues Over (Under) Expenditures	\$ (69,350)	(11,892)	\$ 57,458
Fund Balance - July 1, 1997		656,892	
Fund Balance - June 30, 1998		\$ 645,000	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

MORGAN HILL UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
SPECIAL REVENUE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 1998

	ADULT EDUCATION		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Revenue Limit Sources:			
State Apportionments	\$ 338,555	\$ 311,300	\$ (27,255)
Total Revenue Limit	338,555	311,300	(27,255)
Federal Revenue	152,819	146,582	(6,237)
Other Local Revenue	124,336	101,431	(22,905)
Interest Income	8,000	11,401	3,401
Total Revenues	623,710	570,714	(52,996)
EXPENDITURES			
Certificated Salaries	319,243	315,843	3,400
Classified Salaries	114,030	108,217	5,813
Employee Benefits	76,078	72,294	3,784
Books and Supplies	28,128	32,304	(4,176)
Services and Other Operating Expenditures	54,734	55,508	(774)
Capital Outlay	43,372	4,613	38,759
Other Expenditures	39,313	37,062	2,251
Total Expenditures	674,898	625,841	49,057
Excess of Revenues Over (Under) Expenditures	(51,188)	(55,127)	(3,939)
Other Financing Sources (Uses):			
Operating Transfers In	11,188	11,188	0
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ (40,000)	(43,939)	\$ (3,939)
Fund Balance - July 1, 1997		214,833	
Fund Balance - June 30, 1998		\$ 170,894	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

MORGAN HILL UNIFIED SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 SPECIAL REVENUE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 1998

	CHILD DEVELOPMENT		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Other State Revenue	\$ 476,898	\$ 441,272	\$ (35,626)
Interest Income	10,000	9,983	(17)
Total Revenues	486,898	451,255	(35,643)
EXPENDITURES			
Books and Supplies	7,256	7,256	
Services and Other			
Operating Expenditures	451,022	417,948	33,074
Other Expenditures	28,620	26,051	2,569
Total Expenditures	486,898	451,255	35,643
Excess of Revenues Over (Under) Expenditures	\$ 0	0	\$ 0
Fund Balance - July 1, 1997			
Fund Balance - June 30, 1998		\$ 0	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

MORGAN HILL UNIFIED SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 SPECIAL REVENUE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 1998

	SPECIAL RESERVE		
	Budget	Actual	Variance Favorable (Unfavorable)
<u>REVENUES</u>			
Interest Income	\$ 40,000	\$ 39,890	\$ (110)
Total Revenues	40,000	39,890	(110)
Excess of Revenues Over (Under) Expenditures	40,000	39,890	(110)
Other Financing Sources (Uses):			
Operating Transfers In	10,070	10,070	
Operating Transfers Out	(364,000)		364,000
Total Other Financing Sources (Uses)	(353,930)	10,070	364,000
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>\$ (313,930)</u>	49,960	<u>\$ 363,890</u>
Fund Balance - July 1, 1997		<u>687,221</u>	
Fund Balance - June 30, 1998		<u>\$ 737,181</u>	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

MORGAN HILL UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
SPECIAL REVENUE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 1998

	TOTAL SPECIAL REVENUE FUNDS		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Revenue Limit Sources:			
State Apportionments	\$ 338,555	\$ 311,300	\$ (27,255)
Total Revenue Limit	338,555	311,300	(27,255)
Federal Revenue	873,819	870,193	(3,626)
Other State Revenue	837,767	695,428	(142,339)
Other Local Revenue	995,175	1,026,097	30,922
Interest Income	89,716	93,674	3,958
Total Revenues	3,135,032	2,996,692	(138,340)
EXPENDITURES			
Certificated Salaries	319,243	315,843	3,400
Classified Salaries	597,835	592,022	5,813
Employee Benefits	240,867	236,825	4,042
Books and Supplies	943,531	947,707	(4,176)
Services and Other			
Operating Expenditures	818,603	771,131	47,472
Capital Outlay	80,149	41,389	38,760
Other Expenditures	170,687	165,865	4,822
Total Expenditures	3,170,915	3,070,782	100,133
Excess of Revenues Over (Under) Expenditures	(35,883)	(74,090)	(38,207)
Other Financing Sources (Uses):			
Operating Transfers In	227,279	227,279	
Operating Transfers Out	(364,000)		364,000
Total Other Financing Sources (Uses)	(136,721)	227,279	364,000
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ (172,604)	153,189	\$ 325,793
Fund Balance - July 1, 1997		1,744,533	
Fund Balance - June 30, 1998		\$ 1,897,722	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

MORGAN HILL UNIFIED SCHOOL DISTRICT
COMBINING BALANCE SHEET
DEBT SERVICE FUNDS
JUNE 30, 1998

	<u>Tax Override</u>	<u>Corporation Debt Service- Bonds</u>	<u>Corporation Debt Service- COPS</u>	<u>Totals</u>
<u>ASSETS</u>				
Cash in County Treasury	\$ 4,763,605			\$ 4,763,605
Investments		\$ 849,142	\$ 2,395,033	3,244,175
Total Assets	<u>\$ 4,763,605</u>	<u>\$ 849,142</u>	<u>\$ 2,395,033</u>	<u>\$ 8,007,780</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Fund Balances:				
Unreserved				
Designated		\$ 849,142	\$ 2,395,033	\$ 3,244,175
Undesignated	<u>\$ 4,763,605</u>			<u>4,763,605</u>
Total Fund Balances	<u>4,763,605</u>	<u>849,142</u>	<u>2,395,033</u>	<u>8,007,780</u>
Total Liabilities and Fund Balances	<u>\$ 4,763,605</u>	<u>\$ 849,142</u>	<u>\$ 2,395,033</u>	<u>\$ 8,007,780</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

MORGAN HILL UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
DEBT SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 1998

	Tax Override	Corporation Debt Service- Bonds	Corporation Debt Service- COPS	Totals
<u>REVENUES</u>				
Other State Sources:				
Other	\$ 76,291			\$ 76,291
Local Sources:				
Interest		\$ 47,816	\$ 170,126	217,942
Other	4,109,934			4,109,934
Total Revenues	4,186,225	47,816	170,126	4,404,167
<u>EXPENDITURES</u>				
Services and Other				
Operating Expenditures	12,624			12,624
Debt Service:				
Principal Retirement		480,000	3,215,000	3,695,000
Interest and Fiscal Charges		71,225	752,700	823,925
Total Expenditures	12,624	551,225	3,967,700	4,531,549
Excess of Revenues				
Over (Under) Expenditures	4,173,601	(503,409)	(3,797,574)	(127,382)
Other Financing Sources (Uses):				
Operating Transfers In		539,830	3,921,992	4,461,822
Operating Transfers Out	(4,461,822)			(4,461,822)
Other Sources		(17,469)		(17,469)
Other Uses			(91,365)	(91,365)
Total Other Financing Sources (Uses):	(4,461,822)	522,361	3,830,627	(108,834)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(288,221)	18,952	33,053	(236,216)
Fund Balances - July 1, 1997	5,051,826	830,190	2,361,980	8,243,996
Fund Balances - June 30, 1998	<u>\$ 4,763,605</u>	<u>\$ 849,142</u>	<u>\$ 2,395,033</u>	<u>\$ 8,007,780</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

MORGAN HILL UNIFIED SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 DEBT SERVICE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 1998

	TAX OVERRIDE		
	Budget	Actual	Variance Favorable (Unfavorable)
<u>REVENUES</u>			
Other State Revenue	\$ 76,291	\$ 76,291	
Other Local Revenue	4,212,555	4,109,934	\$ (102,621)
Total Revenues	4,288,846	4,186,225	(102,621)
<u>EXPENDITURES</u>			
Services and Other Operating Expenditures	12,624	12,624	
Total Expenditures	12,624	12,624	0
Excess of Revenues Over (Under) Expenditures	4,276,222	4,173,601	(102,621)
Other Financing Sources (Uses): Operating Transfers Out	(4,526,401)	(4,461,822)	64,579
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ (250,179)	(288,221)	\$ (38,042)
Fund Balances - July 1, 1997		5,051,826	
Fund Balances - June 30, 1998		\$ 4,763,605	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

MORGAN HILL UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
DEBT SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 1998

	TOTAL DEBT SERVICE FUNDS		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Other State Revenue	\$ 76,291	\$ 76,291	
Other Local Revenue	4,212,555	4,109,934	\$ (102,621)
Interest Income		217,942	217,942
Total Revenues	4,288,846	4,404,167	115,321
EXPENDITURES			
Services and Other			
Operating Expenditures	12,624	12,624	
Debt Service:			
Principal Retirement		3,695,000	(3,695,000)
Interest and Fiscal Charges		823,925	(823,925)
Total Expenditures	12,624	4,531,549	(4,518,925)
Excess of Revenues Over (Under) Expenditures	4,276,222	(127,382)	(4,403,604)
Other Financing Sources (Uses):			
Operating Transfers In		4,461,822	4,461,822
Operating Transfers Out	(4,526,401)	(4,461,822)	64,579
Other Sources		(17,469)	(17,469)
Uses		(91,365)	(91,365)
Total Other Financing Sources (Uses)	(4,526,401)	(108,834)	4,417,567
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ (250,179)	(236,216)	\$ 13,963
Fund Balances - July 1, 1997		8,243,996	
Fund Balances - June 30, 1998		\$ 8,007,780	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

MORGAN HILL UNIFIED SCHOOL DISTRICT
COMBINING BALANCE SHEET
CAPITAL PROJECT FUNDS
JUNE 30, 1998

	Mello Roos	Building	Capital Facilities	Roof Replacement	Totals
<u>ASSETS</u>					
Cash in County Treasury	\$ 3,491,882	\$ 2,935,036	\$ 5,034,316	\$ 1,603	\$ 11,462,837
Cash on Hand in Bank	9,572		51,121		60,693
Cash with Fiscal Agent					
Accounts Receivable					
Federal Government					
Interest	46,008	43,019	64,100		153,127
Due from Other Funds			83,468		83,468
Total Assets	<u>\$ 3,547,462</u>	<u>\$ 2,978,055</u>	<u>\$ 5,233,005</u>	<u>\$ 1,603</u>	<u>\$ 11,760,125</u>
<u>LIABILITIES AND FUND BALANCES</u>					
Liabilities:					
Deficit Cash Balance					
Accounts Payable		\$ 280,149	\$ 376	\$ 1,254	\$ 281,779
Due to Other Funds		83,468	51,720	349	135,537
Total Liabilities		<u>363,617</u>	<u>52,096</u>	<u>1,603</u>	<u>417,316</u>
Fund Balances:					
Unreserved					
Designated			250,000		250,000
Undesignated	\$ 3,547,462	2,614,438	4,930,909		11,092,809
Total Fund Balances	<u>3,547,462</u>	<u>2,614,438</u>	<u>5,180,909</u>	<u>0</u>	<u>11,342,809</u>
Total Liabilities and Fund Balances	<u>\$ 3,547,462</u>	<u>\$ 2,978,055</u>	<u>\$ 5,233,005</u>	<u>\$ 1,603</u>	<u>\$ 11,760,125</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

MORGAN HILL UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
CAPITAL PROJECT FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 1998

	Mello Roos	Building	Capital Facilities	Roof Replacement	Totals
<u>REVENUES</u>					
Other State Sources:					
Other			\$ 225,000		\$ 225,000
Local Sources:					
Interest	\$ 168,740	\$ 116,937	222,420	\$ 697	508,794
Other	762,156	108,835	1,582,965		2,453,956
Total Revenues	930,896	225,772	2,030,385	697	3,187,750
<u>EXPENDITURES</u>					
Classified Salaries		2,401	2,242		4,643
Employee Benefits		221	223		444
Books and Supplies			14	348	362
Services and Other					
Operating Expenditures	3,745	464,548	398,105	205,356	1,071,754
Capital Outlay			22,122	9,632	31,754
Debt Service - Principal			36,000		36,000
Total Expenditures	3,745	467,170	458,706	215,336	1,144,957
Excess of Revenues Over (Under) Expenditures	927,151	(241,398)	1,571,679	(214,639)	2,042,793
Other Financing Sources (Uses):					
Operating Transfers In			225,772	119,328	345,100
Operating Transfers Out		(225,772)	(51,720)	(349)	(277,841)
Other Sources		1,824,351		95,660	1,920,011
Total Other Financing Sources (Uses):		1,598,579	174,052	214,639	1,987,270
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	927,151	1,357,181	1,745,731		4,030,063
Fund Balances - July 1, 1997	2,620,311	1,257,257	3,435,178		7,312,746
Fund Balances - June 30, 1998	\$ 3,547,462	\$ 2,614,438	\$ 5,180,909	\$ 0	\$ 11,342,809

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

MORGAN HILL UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
CAPITAL PROJECT FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 1998

	BUILDING		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Other Local Revenue	\$ 108,835	\$ 108,835	
Interest Income	141,132	116,937	\$ (24,195)
Total Revenues	249,967	225,772	(24,195)
EXPENDITURES			
Classified Salaries	2,500	2,401	99
Employee Benefits	248	221	27
Services and Other Operating Expenditures	189,500	464,548	(275,048)
Total Expenditures	192,248	467,170	(274,922)
Excess of Revenues Over (Under) Expenditures	57,719	(241,398)	(299,117)
Other Financing Sources (Uses):			
Operating Transfers Out	(225,773)	(225,772)	1
Other Sources	1,838,251	1,824,351	(13,900)
Total Other Financing Sources (Uses)	1,612,478	1,598,579	(13,899)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 1,670,197	1,357,181	\$ (313,016)
Fund Balances - July 1, 1997		1,257,257	
Fund Balances - June 30, 1998		\$ 2,614,438	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

MORGAN HILL UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
CAPITAL PROJECT FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 1998

	CAPITAL FACILITIES		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Other State Revenue	\$ 225,000	\$ 225,000	
Other Local Revenue	1,582,965	1,582,965	
Interest Income	165,856	222,420	\$ 56,564
Total Revenues	1,973,821	2,030,385	56,564
EXPENDITURES			
Classified Salaries	2,242	2,242	
Employee Benefits	279	223	56
Books and Supplies	100	14	86
Services and Other			
Operating Expenditures	398,105	398,105	
Capital Outlay	154,976	22,122	132,854
Debt Service - Principal	36,000	36,000	
Total Expenditures	591,702	458,706	132,996
Excess of Revenues Over (Under) Expenditures	1,382,119	1,571,679	189,560
Other Financing Sources (Uses):			
Operating Transfers In	225,773	225,772	(1)
Operating Transfers Out	(22,500)	(51,720)	(29,220)
Total Other Financing Sources (Uses)	203,273	174,052	(29,221)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 1,585,392	1,745,731	\$ 160,339
Fund Balances - July 1, 1997		3,435,178	
Fund Balances - June 30, 1998		\$ 5,180,909	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

MORGAN HILL UNIFIED SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 CAPITAL PROJECT FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 1998

	ROOF REPLACEMENT		
	Budget	Actual	Variance Favorable (Unfavorable)
<u>REVENUES</u>			
Interest Income	\$ 1,800	\$ 697	\$ (1,103)
Total Revenues	1,800	697	(1,103)
<u>EXPENDITURES</u>			
Books and Supplies	1,800	348	1,452
Services and Other			
Operating Expenditures	205,356	205,356	
Capital Outlay	9,632	9,632	
Total Expenditures	216,788	215,336	1,452
Excess of Revenues Over (Under) Expenditures	(214,988)	(214,639)	349
Other Financing Sources (Uses):			
Operating Transfers In	119,328	119,328	
Operating Transfers Out		(349)	(349)
Other Sources	95,660	95,660	
Total Other Financing Sources (Uses)	214,988	214,639	(349)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 0	0	\$ 0
Fund Balances - July 1, 1997		0	
Fund Balances - June 30, 1998		\$ 0	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

MORGAN HILL UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
CAPITAL PROJECT FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 1998

	TOTAL CAPITAL PROJECTS FUNDS		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Other State Revenue	\$ 225,000	\$ 225,000	
Other Local Revenue	1,691,800	2,453,956	\$ 762,156
Interest Income	308,788	508,794	200,006
Total Revenues	2,225,588	3,187,750	962,162
EXPENDITURES			
Classified Salaries	4,742	4,643	99
Employee Benefits	527	444	83
Books and Supplies	1,900	362	1,538
Services and Other			
Operating Expenditures	792,961	1,071,754	(278,793)
Capital Outlay	164,608	31,754	132,854
Debt Service - Principal	36,000	36,000	
Total Expenditures	1,000,738	1,144,957	(144,219)
Excess of Revenues Over (Under) Expenditures	1,224,850	2,042,793	817,943
Other Financing Sources (Uses):			
Operating Transfers In	345,101	345,100	(1)
Operating Transfers Out	(248,273)	(277,841)	(29,568)
Other Sources	1,933,911	1,920,011	(13,900)
Total Other Financing Sources (Uses)	2,030,739	1,987,270	(43,469)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 3,255,589	4,030,063	\$ 774,474
Fund Balances - July 1, 1997		7,312,746	
Fund Balances - June 30, 1998		\$ 11,342,809	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

MORGAN HILL UNIFIED SCHOOL DISTRICT
 COMBINING BALANCE SHEET - TRUST AND AGENCY FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 1998

	Expendable Trust Scholarship Fund	Agency Fund Student Body	Totals
ASSETS			
Cash in Bank	\$ 11,081	\$ 164,858	\$ 175,939
Total Assets	<u>\$ 11,081</u>	<u>\$ 164,858</u>	<u>\$ 175,939</u>
LIABILITIES AND FUND EQUITY			
Liabilities:			
Due to Student Groups		\$ 164,858	\$ 164,858
Total Liabilities		164,858	164,858
Fund Balance:			
Undesignated	\$ 11,081	0	11,081
Total Liabilities and Fund Balance	<u>\$ 11,081</u>	<u>\$ 164,858</u>	<u>\$ 175,939</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

MORGAN HILL UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 1998

	Balance July 1, 1997	Additions	Deductions	Balance June 30, 1998
<u>LIVE OAK HIGH SCHOOL</u>				
<u>ASSETS</u>				
Cash	<u>\$97,435</u>	<u>\$446,973</u>	<u>\$439,186</u>	<u>\$105,222</u>
<u>LIABILITIES</u>				
Due to Student Groups	<u>\$97,435</u>	<u>\$446,973</u>	<u>\$439,186</u>	<u>\$105,222</u>
<u>MARTIN MURPHY MIDDLE SCHOOL</u>				
<u>ASSETS</u>				
Cash	<u>\$22,795</u>	<u>\$811,395</u>	<u>\$809,717</u>	<u>\$24,473</u>
<u>LIABILITIES</u>				
Due to Student Groups	<u>\$22,795</u>	<u>\$811,395</u>	<u>\$809,717</u>	<u>\$24,473</u>
<u>BRITTON MIDDLE SCHOOL</u>				
<u>ASSETS</u>				
Cash	<u>\$43,853</u>	<u>\$149,842</u>	<u>\$158,532</u>	<u>\$35,163</u>
<u>LIABILITIES</u>				
Due to Student Groups	<u>\$43,853</u>	<u>\$149,842</u>	<u>\$158,532</u>	<u>\$35,163</u>
<u>TOTAL - ALL AGENCY FUNDS</u>				
<u>ASSETS</u>				
Cash	<u>\$164,083</u>	<u>\$1,408,210</u>	<u>\$1,407,435</u>	<u>\$164,858</u>
<u>LIABILITIES</u>				
Due to Student Groups	<u>\$164,083</u>	<u>\$1,408,210</u>	<u>\$1,407,435</u>	<u>\$164,858</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

SUPPLEMENTARY INFORMATION

GOODELL,
PORTER &
FREDERICKS, LLP

CERTIFIED
PUBLIC
ACCOUNTANTS

RICHARD J. GOODELL, CPA
JOHN L. GOODELL, CPA
VIRGINIA K. PORTER, CPA
PAUL D. FREDERICKS, CPA

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

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

We have audited the combined and combining financial statements of the Morgan Hill Unified School District as of and for the year ended June 30, 1998, and have issued our report thereon dated October 15, 1998. These financial statements are the responsibility of the District's management. Our responsibility was to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards; the standards for financial and compliance 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, prescribed by the State Controller. 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 evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Board of Trustees
Morgan Hill Unified School District
Page Two

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary financial and statistical information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the Morgan Hill Unified School District. The accompanying schedule of expenditures of Federal awards, is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements of the Morgan Hill Unified School District. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, as fairly presented in all material respects in relation to the financial statements taken as a whole.

Goodel, Porter & Fredericks, LLP

GOODELL, PORTER & FREDERICKS, LLP
Certified Public Accountants

October 15, 1998

MORGAN HILL UNIFIED SCHOOL DISTRICT

MORGAN HILL, CALIFORNIA

JUNE 30, 1998

ORGANIZATION

The Morgan Hill Unified School District was founded on July 1, 1966 and is comprised of an area of approximately 296 square miles located in Santa Clara County. There were no changes in the boundaries of the District during the current year. The District operates eleven elementary school, two middle schools, one regular and one continuation high school, and an adult education school.

The Board of Trustees for the year ended June 30, 1998, was composed of the following members:

Board of Education

<u>Name</u>	<u>Office</u>	<u>Term expires</u>
Larry D. Carr	President	November 2000
Del Foster	Vice President	November 2000
Susan Martimo Choi	Member	November 1998
Rick Herder	Member	November 1998
John Kennett	Member	November 1998
Tom Kinoshita	Member	November 1998
Jan Masuda	Member	November 2000

ADMINISTRATION

Dr. Carolyn McKenna
Superintendent

MORGAN HILL UNIFIED SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 1998

	<u>Second Period Report</u>	<u>Annual Report</u>
<u>Elementary</u>		
Kindergarten	685	685
First through Third	2,165	2,136
Fourth through Sixth	2,080	2,075
Seventh through Eighth	1,435	1,432
Opportunity Schools	5	6
Home and Hospital	1	1
Special Education	91	93
Extended year	<u>4</u>	<u>4</u>
Subtotals	<u>6,466</u>	<u>6,432</u>
<u>Secondary</u>		
Regular Classes	2,550	2,532
Special Education	32	32
Compulsory Continuation Education	83	82
Opportunity Schools	14	14
Home & Hospital	<u>4</u>	<u>5</u>
Subtotals	<u>2,683</u>	<u>2,665</u>
<u>Classes for Adults</u>		
Concurrently Enrolled	1	1
Not concurrently Enrolled	<u>166</u>	<u>172</u>
Totals	<u>9,316</u>	<u>9,270</u>
		<u>Hours of Attendance</u>
<u>Summer School</u>		
Elementary		66,499
High School		<u>69,472</u>
Totals		<u>135,971</u>

SEE NOTES TO SUPPLEMENTARY INFORMATION

MORGAN HILL UNIFIED SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME OFFERED
FOR THE FISCAL YEAR ENDED JUNE 30, 1998

<u>Grade Level</u>	<u>1986-87 Minutes Requirement</u>	<u>1982-83 Actual Minutes</u>	<u>1997-98 Actual Minutes</u>	<u>Status</u>
Kindergarten	36,000	31,680	36,000	In Compliance
Grade 1 to 3	50,400	48,130	50,823	In Compliance
Grade 4 to 8	54,000	51,920	54,324	In Compliance
Grade 7 to 9	54,000	55,715	58,744	In Compliance
Grade 10 to 12	64,800	60,849	64,800	In Compliance

SEE NOTES TO SUPPLEMENTARY INFORMATION

MORGAN HILL UNIFIED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 1998

<u>Program Name:</u>	<u>Federal Catalog Number</u>	<u>Program Expenditures</u>
Federal:		
US Department of Agriculture:		
Passed through the California		
Department of Education (CDE):		
National School Lunch	10.555	\$ 510,857
Especially Needy Breakfast	10.553	186,649
Basic School Breakfast	10.553	26,105
US Department of Education:		
Passed through CDE:		
IASA - Title I	84.010	366,073
IASA - Title VI	84.151	29,001
Special Education PL101-476		
Special Education PL101-476	84.027	4,876
Preschool Expansion	84.173	41,838
Preschool Staff Development	84.173	396
Special Education	84.027	355,750
Vocational Education		
Vocational Education Act	84.048	28,735
Teen Parent	84.048	14,380
EESA PL 98-377	84.168	41,838
Drug Free Schools and		
Communities Act of 1986	84.186	44,859
Goals 2000	84.276	19,244
Adult Education		
Job Training partnership Act	17.250	140,195
Adult Basic Education	84.002	6,387
Migrant Education	84.011	91,737
Migrant Summer School	84.011	42,139
Reading Instruction		5,528
Even Start	84.213	7,714
Total Federal Programs		<u>\$ 1,964,301</u>

SEE NOTES TO SUPPLEMENTARY INFORMATION

MORGAN HILL UNIFIED SCHOOL DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET
REPORT (J-200) WITH
AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1998

	<u>General Fund</u>
June 30, 1998 Annual Financial and Budget Report (Form J-200) Fund Balance	\$3,967,974
Adjustments and Reclassifications: Understatement of TUPE Revenue	<u>13,427</u>
June 30, 1998 Audited Financial Statement Fund Balances	<u>\$3,981,401</u>
	<u>General Long-Term Debt Account Group</u>
June 30, 1998 Annual Financial and Budget Report (J-200) Total Liabilities	\$13,440,000
Adjustments and Reclassifications: Increase (Decrease) in Total Liabilities:	
Understatement of General Obligation Bonds	1,055,000
Overstatement of Certificates of Participation	(1,055,000)
Understatement of Capital Leases	186,932
Understatement of Compensated Absences	<u>221,624</u>
Net Adjustments and Reclassifications	<u>408,556</u>
June 30, 1998, Audited Financial Statement General Long-Term Debt Total Liabilities	<u>\$13,848,556</u>

Auditor's Comments

The audited financial statements of all other funds were in agreement with the Annual Financial and Budget Report (J-200) for the year ended June 30, 1998.

SEE NOTES TO SUPPLEMENTARY INFORMATION

MORGAN HILL UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 1998

	(Budget) 1998-99	1997-98	1996-97	1995-96
<u>General Fund</u>				
Revenues and Other Financial Sources	\$ 45,167,190	\$ 44,852,801	\$ 41,915,462	\$ 38,628,941
Expenditures	44,877,118	43,928,680	41,793,280	37,376,026
Other Uses and Transfers Out	233,431	346,607	115,796	75,000
Total Outgo	45,110,549	44,275,287	41,909,076	37,451,026
Change in Fund Balance	56,641	577,514	6,386	1,177,915
Ending Fund Balance	\$ 4,024,615	\$ 3,978,303	\$ 3,400,789	\$ 3,394,403
Available Reserves*	\$ 2,540,053	\$ 2,493,741	\$ 2,593,196	\$ 1,993,400
Designated for Economic Uncertainties	\$ 1,353,316	\$ 1,330,167	\$ 1,262,537	\$ 1,119,009
Available reserves as a percentage of total outgo	5.6%	5.6%	6.2%	5.3%
Total long-term debt	\$ 9,682,556	\$ 13,848,556	\$ 17,508,546	\$ 20,988,435
Average daily attendance at P-2	8,985	9,149	8,983	8,757

* Available reserves includes General Fund designated for economic uncertainty and General Fund unrestricted, undesignated fund balance.

The general fund balance has increased by \$1,761,815 over the past three years. The fiscal year 1998-99 budget projects an increase of \$56,641 in the general fund balance. For a district this size, the state recommends available reserves of at least 3 percent of total general fund expenditures, transfers out, and other uses.

Total long-term debt has decreased by \$10,090,968 over the past three years. The District has projected a decrease of 164 ADA during fiscal year 1998-99, due to change in attendance accounting (AB727) effective July 1, 1998

SEE NOTES TO SUPPLEMENTARY INFORMATION

MORGAN HILL UNIFIED SCHOOL DISTRICT
SCHEDULE OF CLASS SIZE REDUCTION
FACILITIES FUNDING PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 1998

State Program Revenue

Teaching Stations

June 30, 1997 Program Balance	\$ 0
1996/97 Second Round Funding in 1997/98	<u>225,000</u>

Expenditures

Capital Outlay	<u>225,000</u>
----------------	----------------

Program Balance June 30, 1998	<u><u>\$ 0</u></u>
-------------------------------	--------------------

The District received \$225,000 of 1996/97 second round funding for CSR Facilities Funding in the 1997/98 fiscal year and expended \$225,000.

SEE NOTES TO SUPPLEMENTARY INFORMATION

MORGAN HILL UNIFIED SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 1998

NOTE 1 – PURPOSE OF SCHEDULES

A. Schedule of Average Daily Attendance

Average daily attendance 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 apportionment's 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.

B. 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 complied with the provisions of Education Code Sections 46201 through 46206.

C. Schedule of Federal Financial Assistance

OMB Circular A-133 requires a disclosure of the financial activities of all federally funded programs. To comply with A-133 requirements, this schedule was prepared for the District.

D. Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balances of all funds, and the total liabilities balance of the general long-term debt account group as reported on the Form J-200, to the audited financial statements.

E. Schedule of Financial Trends and Analysis

This schedule discloses the District's financial trends by displaying past year's 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.

F. Schedule of Class Size Reduction Facilities Funding Program

The District has received funding for facilities related costs associated with reducing class size in kindergarten and grades 1 through 3. This schedule presents the amount received, expended by major object and fund balance.

GOODELL,
PORTER &
FREDERICKS, LLP

CERTIFIED
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RICHARD J. GOODELL, CPA
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PAUL D. FREDERICKS, CPA

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

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

We have audited the combined and combining financial statements of the Morgan Hill Unified School District, as of and for the year ended June 30, 1998, and have issued our report thereon dated October 15, 1998. In our report, our opinion was qualified because of the omission of the general fixed assets account group. Our audit was made in accordance with generally accepted auditing standards; the standards for financial and compliance audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the State Controller's Standards and Procedures for Audits of California K-12 Local Educational Agencies. 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 opinion.

The District's management is responsible for the District's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine the District's compliance with the state laws and regulations applicable to the following items:

<u>Description</u>	<u>Procedures in Controller's Audit Guide</u>	<u>Procedures Performed</u>
Attendance accounting:		
Attendance reporting	3	Yes
Excused/unexcused	2	Yes
Staff development days	3	Yes
Kindergarten Enrollment	4	Yes
Independent study	19	Yes

<u>Description</u>	<u>Procedures in Controller's Audit Guide</u>	<u>Procedures Performed</u>
Continuation education	14	Yes
Adult education	8	Yes
Regional occupational center/programs	5	Not Applicable
Incentive for longer instructional day:		
School Districts	3	Yes
County offices of education	3	Not Applicable
Incentive for Longer Year	2	Yes
GANN limit calculation	2	Yes
Early retirement incentive program	5	Not Applicable
Reading Instruction Development Program	8	Yes
Community Day Schools	5	Not Applicable
Concurrent Enrollment in Public Higher Education	5	Yes
Class Size Reduction:		
Option One classes	12	Yes
Option Two classes	11	Not Applicable
Option One and Two classes	16	Not Applicable
Class Size Reduction Facilities	3	Yes
State Instructional Material Fund	8	Yes

Based on our audit, we found that, for the items tested, the Morgan Hill Unified School District complied with the state laws and regulations of the state programs referred to above, except as described in the Findings and Recommendations Section of this report. Further, based on our examination, for items not tested, nothing came to our attention to indicate that the Morgan Hill Unified School District had not complied with the state laws and regulations.

Goodell, Porter & Fredericks, LLP

GOODELL, PORTER & FREDERICKS, LLP
Certified Public Accountants

October 15, 1998

GOODELL,
PORTER &
FREDERICKS, LLP

CERTIFIED
PUBLIC
ACCOUNTANTS

RICHARD J. GOODELL, CPA
JOHN L. GOODELL, CPA
VIRGINIA K. PORTER, CPA
PAUL D. FREDERICKS, CPA

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

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

We have audited the combined and combining financial statements of Morgan Hill Unified School District as of and for the year ended June 30, 1998, and have issued our report thereon dated October 15, 1998. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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 grants, 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 instances of noncompliance that are required to be reported under *Government Auditing Standard* which are reported in the Findings and Recommendation Section of this report as item 98-7, "IASA, Title I".

Internal Control over Financial Reporting

In planning and performing our audit, we considered Morgan Hill Unified School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Morgan Hill Unified School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are included in the Findings and Recommendations Section of the report.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended for the information of the District Board, management, the California Department of Education, the State Controllers Office and federal awarding agencies. However, this report is a matter of public record and its distribution is not limited.

Goodell, Porter + Fredericks, LLP

GOODELL, PORTER & FREDERICKS, LLP
Certified Public Accountants

October 15, 1998

GOODELL,
PORTER &
FREDERICKS, LLP

C E R T I F I E D
P U B L I C
A C C O U N T A N T S

RICHARD J. GOODELL, CPA
JOHN L. GOODELL, CPA
VIRGINIA K. PORTER, CPA
PAUL D. FREDERICKS, CPA

INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133

Board of Education
Morgan Hill Unified School District
Morgan Hill, CA

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 are applicable to each of its major federal programs for the year ended June 30, 1998. Morgan Hill Unified School District's major federal programs are identified in the summary of the auditor's 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 generally accepted auditing standards; 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 reasonable basis for our opinion. Our audit does not provide a legal determination of Morgan Hill Unified School District's compliance with those requirements.

As described in item 98-7, "IASA, Title I" in the Findings and Recommendation Section of this report, Morgan Hill Unified School District did not comply with timekeeping requirements of the IASA Title I program. Compliance with such requirements is necessary, in our opinion for Morgan Hill Unified School District to comply with requirements applicable to that program.

In our opinion, except for the noncompliance describe in the preceding paragraph, Morgan Hill Unified School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 1998.

Internal Control Over Compliance

The management of Morgan Hill Unified School District is responsible for establishing and maintaining effective internal control over compliance with 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 requirements that could have a direct and material effect on a major federal program in order 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.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level of risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal controls over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the District Board, management, the California Department of Education, the State Controllers Office and federal awarding agencies. However, this report is a matter of public record and its distribution is not limited.

Goodell, Porter + Fredericks, LLP

GOODELL, PORTER & FREDERICKS, LLP
Certified Public Accountants

October 15, 1998

FINDINGS AND RECOMMENDATIONS SECTION

MORGAN HILL UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 1998

Section 1 - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Qualified

Internal control over financial reporting:

Material weakness(es) identified? ☐ Yes ☒ No

Reporting condition(s) identified not considered to be material weaknesses? ☒ Yes ☐ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over financial reporting:

Material weakness(es) identified? ☐ Yes ☒ No

Reporting condition(s) identified not considered to be material weaknesses? ☒ Yes ☐ None reported

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

Any audit findings disclosed that are required to be reported in accordance with Circular A-133 ☒ Yes ☐ No

Identification of major programs

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.555	National School Lunch
84.010	Title I - IASA

Dollar threshold used to distinguish between Type A and Type B programs: 300,000

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

State Awards

Internal control over state programs:

Material weakness(es) identified? ☐ Yes ☒ No

Reporting conditions(s) identified not considered to be material weaknesses? ☒ Yes ☐ None reported

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

MORGAN HILL UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 1998

Section II - Financial Statements Findings

98-1 - COUNTY OFFICE POSTING – 30000

Specific Requirement That Was Not Complied With: Sound accounting practices require backup for all entries made on the general ledger.

Finding: During our audit of district revenue accounts we noted postings made by the county office for which there was no backup obtained or maintained.

Effect: Without backup for entries made to the general ledger there is not a sufficient audit trail to confirm transactions.

Recommendation: We recommend backup be obtained and retained for all postings made by the county office not initiated by the district.

District Response: District has forwarded this information to the Santa Clara County Office of Education and has requested that this documentation be attached to their journal and cash receipt vouchers.

98-2 - PURCHASE ORDER APPROVAL – 30000

Specific Requirement That Was Not Complied With: Sound accounting practices require signature stamps to be kept in a secure location.

Finding: During our audit of purchasing procedures we determined purchase orders are approved by a signature stamp which is not kept in a secure location.

Effect: When an approving signature stamp is not kept in a secure place unauthorized purchase orders may be approved.

Recommendation: We recommend the signature stamp be placed in a secure location such as a locked cabinet.

District Response: The signature stamp is now being kept in a secure location under control of the Coordinator of Purchasing.

MORGAN HILL UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 1998

Section II – Financial Statements Findings (Continued)

98-3 - STUDENT BODY DISBURSEMENTS - 30000

Specific Requirement That Was Not Complied With: Education Code Section 48933 states every time funds are expended, approval is required by each of the following three persons; an employee or official of the district designated by the governing board, the certificated employee who is the designated advisor of the particular student body organization and a representative of the particular student body organization.

Finding (Condition): All disbursements tested (15) from the Live Oak High School's student body account were not approved by an authorized student representative in the student body organization.

Effect: Without prior approval by an authorized student representative, unauthorized disbursements may be made from student body accounts and not be detected.

Recommendation: No disbursements should be made from student body accounts without prior approval from an authorized student representative.

District Response: Based on the recommendation, the approval disbursement form has been modified so that the student body representative must approve each disbursement.

98-4 - REVOLVING CASH – 30000

Specific Requirement That Was Not Complied With: Sound accounting practices require revolving cash accounts to be reconciled on a monthly basis to the bank statement and authorized balance.

Finding: During our testing of the district's revolving cash accounts for the General, Cafeteria and Adult Education Funds we noted the accounts are not reconciled to the authorized balance on a timely basis.

Amount of Questioned Costs and How Computed: The condition referred to above was the result of our test of an attribute of the control system. We considered defining the dollar amount by extending the error rate to the total population, but determined this type of analysis would likely result in incorrect conclusion.

Effect: Without monthly reconciliations to the bank statement and authorized balance, errors may occur and not be detected in a timely manner.

MORGAN HILL UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 1998

Section II - Financial Statements Findings (Concluded)

98-4 - REVOLVING CASH - 30000 (CONCLUDED)

Recommendation: Bank reconciliations should be prepared on a monthly basis, including a reconciliation of the bank account balances back to the authorized balance.

District Response: District has implemented changes in job responsibilities to facilitate the reconciliation of all bank statements in a timely manner.

98-5 - EXPENDITURE ACCOUNT CODING - 30000

Specific Requirement That Was Not Complied With: Sound accounting practices requires all expenditures to be classified to the correct object code.

Finding: During or audit of the expenditures for Deferred Maintenance, Building, Capital Facilities and Roof Replacement Funds we noted some capital outlay expenditures are being misclassified as contract services.

Effect: Expenditures not classified to the correct object code could cause the financial information to be misleading to the readers of the financial statements.

Recommendation: We recommend a designated employee review account coding to ensure accurate financial reporting.

District Response: The work for building improvement was completed by independent contractors and codes as contract services. This type of expense should be coded as Capital improvement. Staff has been informed of the coding requirements and has received a copy of the related pages from the California School Accounting Manual.

98-6 - MARTIN MURPHY MIDDLE SCHOOL STUDENT BODY - 30000

Finding (Condition): During our audit of the Martin Murphy Middle School student body account we noted the accounting for these funds is done manually without the use of a computer software program.

Recommendation: In order to improve efficiency of student body accounting, we recommend converting the student body account to a computerized software package.

District Response: District will endeavor to find adequate computer software to assist Murphy with their Associated Student Body bookkeeping. We will look at the various accounting, database and spreadsheet software.

MORGAN HILL UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 1998

Section III - Federal Award Findings and Questioned Costs

98-7 - IASA, Title I - 50000

Specific Requirement That Was Not Complied With: OMB Circular A-87, the Federal Cost Principles, requires all multi-funded employees to maintain monthly timesheets which document the actual time worked in federal programs. At least quarterly, the business office is required to reconcile the time actually worked in each program to the time charged to the program through payroll allocations.

Finding (Condition): During our testing of controls for district payroll, we tested ten multi-funded employees charged to Title I and found all employees tested did not have a timesheet to support a Title I allocation.

Effect: Without documentation of employee's time, there is no method in place to assure the number of hours worked per program is being allocated correctly. In addition, without reconciliation of the timesheets to actual payroll allocations, time may be incorrectly charged to Title I.

Recommendation: We recommend each multi-funded employee fill out a timesheet which includes the amount of time worked in each program. These timesheets should then be reconciled to the actual payroll allocation at least quarterly.

District Response: We will request that school sites employees who are partially or fully funded by federal funds complete a timesheet twice a year documenting the hours they have worked. Documentation will be submitted to the district to be included as part of their personnel file.

MORGAN HILL UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 1998

Section IV – State Award Findings and Questioned Costs

98-8 - PHONE LOG – CENTRAL HIGH SCHOOL – 10000

Specific Requirement That Was Not Complied With: The California State Attendance Accounting Manual requires phone logs to contain the absent pupil's name, the name of the person reached and his/her relationship to the pupil, the name of the verifying school employee, the date of the call, the date of the absence to which the call refers, and the reason for the absences.

Finding: The phone log used by Central High School to clear absences does not contain all the required elements.

Effect: Due to recent changes made in attendance accounting law, districts will no longer be able to claim absences for apportionment attendance. Therefore, the effect of this finding is minimal for the 1998-99 fiscal year.

Recommendation: In order to comply with current attendance law, the district should maintain documentation to verify the characterization of student absences.

District Response: The phone log did not reflect the date(s) of absence, name of school employee verifying the call, and name of the person reached and his/her relationship to the pupil. We have implemented procedures to alleviate these discrepancies.

MORGAN HILL UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 1998

Section IV – State Award Findings and Questioned Costs (Continued)

98-9 - STATE INSTRUCTIONAL MATERIALS – PUBLIC HEARING - 40000

Specific Requirement That Was Not Complied With: The District did not hold a public hearing that is required by Education Code Section 60119(a)(1) during the 1997-98 fiscal year.

Finding: According to Education Code Section 60119(a)(1), the governing board shall hold a public hearing and encourage participation to make a determination whether each pupil in each school has, or will have by the end of the fiscal year, enough text books or instructional materials. The District did not hold a public hearing during the 1997-98 fiscal year.

Amount of Questioned Costs and How Computed: Costs associated with this finding would include the expenditures of Instructional Materials for the 1997/98 fiscal year in the amount of \$229,719.

Recommendation: The Education Code requires the District conduct a public hearing annually to determine each pupil has or will have, before the end of the fiscal year, enough textbooks and other instructional materials in each subject consistent with the framework adopted by the State. We recommend a public hearing be held early in fiscal year 1998-99 to make the determination. If the Governing Board determines there are not enough textbooks, that information should be processed to ensure that within two years from the date of the public hearing, each student will have sufficient textbooks or instructional materials.

District Response: A public hearing was held on August 10, 1998 and the State of Assurance and Board Resolution was approved on this date.

MORGAN HILL UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 1998

Section IV – State Award Findings and Questioned Costs (Continued)

98-10 - ATTENDANCE - INDEPENDENT STUDY – 10000

Specific Requirement That Was Not Complied With:

Education Code Section 51747 requires a current written independent study agreement be on file in order to receive apportionment income for students enrolled in the independent study program. Furthermore, the agreement must conform to Education Code Section 51747(c) and include specific information.

Finding (Condition):

During our testing of full-time independent study at Live Oak High School, we determined written contracts conforming to Education Code Section 51747 (c) are not maintained.

Amount of Questioned Costs and How Computed:

Population	100	\$ 400,000
Sample Size	6	\$ 24,000
Finding	100	\$ 400,000

Effect: Students may be claimed for independent study apportionment without being eligible.

Recommendation: We recommend the District begin completing independent study contracts each semester for all part-time and full-time independent study students that conform to Education Code Section 51747. In addition, the district should request a waiver from compliance with Education Code Section 51714(c) for the 1997-98 fiscal year or file amended P-2 and annual attendance reports to omit the full-time independent study.

District Response: We have submitted a waiver from compliance, which was approved by the Morgan Hill Unified School District Board of Education on November 9, 1998. The Independent Study contract has been modified to conform to the state guidelines.

MORGAN HILL UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 1998

Section IV - State Award Findings and Questioned Costs (Concluded)

98-11 – ATTENDANCE - CONCURRENT ENROLLMENT – 10000

Specific Requirement That Was Not Complied With: Section 1630, Title 5, California Code of Regulations (CCR)

Finding: Section 1630, Title 5, CCR, provides in part that credit toward high school graduation may not be given for a course taken in a community college or CSU program unless “at the student’s request, the credit is disallowed by the authorities of the college as credit toward graduation from college.” During our testing of concurrent enrollment we determined the district is not maintaining documentation for students who are concurrently enrolled, and were therefore unable to document the number of credits.

Effect: All students concurrently enrolled in public college classes are attending at least four hours at the high school. Therefore, the ADA is claimed appropriately and no adjustments would be made amend the J 18/19 form.

Recommendation: We recommend that the district obtain letters for those students attending college classes while enrolled at the high school and retain the letters in files to meet the compliance requirements.

District Response: Staff has been advised and a plan has been put in place to ensure compliance in this area.

MORGAN HILL UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

JUNE 30, 1998

<u>Findings/Recommendations</u>	<u>Current Status</u>	<u>Explanation if Not Fully Implemented</u>
<u>INTERNAL CONTROLS</u>		
The District should establish procedures for filing and maintaining all student files for the adult school.	Implemented	