

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

AUDIT REPORT

JUNE 30, 1999



MORGAN HILL UNIFIED SCHOOL DISTRICT

JUNE 30, 1999

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TABLE OF CONTENTS

<u>FINANCIAL SECTION</u>	<u>Page</u>
Independent Auditor's Report on Financial Statements	1
Combined Statements:	
Combined Balance Sheet-All Fund Types and Account Group	4
Combined Statement of Revenues, Expenditures and changes in fund balances-All Governmental Fund types and Expendable Trust Fund	7
Combined Statement of Revenues, Expenditures and Changes in Fund Balances-budget and actual-all budgeted Governmental Fund types	8
Notes to Financial Statements	10
Combining Financial Statements:	
Special Revenue Funds	
Combining Balance Sheet	27
Combining Statement of Revenues, Expenditures and Changes in Fund Balance	28
Combining Statement of Revenues, Expenditures and Changes in Fund Balances-budget and actual	29
Debt Service Funds	
Combining Balance Sheet	35
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	36
Combining Statement of Revenues, Expenditures and Changes in Fund Balances-budget to actual	37

MORGAN HILL UNIFIED SCHOOL DISTRICT

JUNE 30, 1999

---

TABLE OF CONTENTS

	<u>Page</u>
<u>FINANCIAL SECTION</u>	
Capital Projects Funds	
Combining Balance Sheet	39
Combining Statement of Revenues, Expenditures and changes in Fund Balances	40
Combining Statement of Revenues, Expenditures and Changes in Fund Balances-Budget and Actual	41
Agency Fund	
Combining Balance Sheet – Trust and Agency Funds	46
Combining Statement of Changes in Assets and Liabilities	47
<u>SUPPLEMENTARY INFORMATION SECTION</u>	
Independent Auditor's Report on Supplementary Information	49
Organization	51
Schedule of Average Daily Attendance	52
Schedule of Instructional Time	53
Schedule of Expenditures of Federal Awards	54
Reconciliation of Annual Financial and Budgeted Report (J-200 With Audited Financial Statements)	55
Schedule of Financial Trends and Analysis	56
Notes to Supplementary Information	57



MORGAN HILL UNIFIED SCHOOL DISTRICT

JUNE 30, 1999

---

TABLE OF CONTENTS

	<u>Page</u>
<u>SUPPLEMENTARY INFORMATION SECTION</u>	
Independent Auditor's Report on State Compliance	59
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting based on an Audit Of Financial Statements performed in Accordance with Government Auditing Standards	61
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	63
<u>FINDINGS AND RECOMMENDATIONS SECTION</u>	
Schedule of Findings and Questioned Costs	65
Status of Prior Year Findings and Recommendations	70



## FINANCIAL SECTION



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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  
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PAUL D. FREDERICKS, CPA

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, 1999, 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 10).

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.

During fiscal year 1998-99 the District redeemed \$1,055,000 in General Obligation Bonds by a payment from the Corporation Debt Service – Bonds Fund. Information was not available from the trustee to support these transactions. Accordingly, the amounts presented in the General Long-Term Debt Group of Accounts and the amounts presented in the Schedule of Changes in Long-Term Debt for General Obligation Bonds Payable has not been audited. The scope of our work was not sufficient to enable us to express, and we do not express, an opinion on these amounts.

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 and except for the scope limitation described in the preceding paragraph, 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, 1999, 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, 1999, 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 December 1, 1999 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  
Certified Public Accountants

December 1, 1999



MORGAN HILL UNIFIED SCHOOL DISTRICT  
COMBINED BALANCE SHEET  
ALL FUND TYPES AND ACCOUNT GROUPS  
JUNE 30, 1999

	Governmental Fund Types			
	General	Special Revenues	Debt Service	Capital Projects
<b>ASSETS</b>				
Cash in County Treasury (Note 2)	\$ 5,205,520	\$ 1,537,684	\$ 4,148,591	\$ 9,980,598
Cash on Hand and in Bank (Note 2)	103,585	6,369		85,700
Cash in Revolving Fund (Note 2)	14,500	6,000		
Investments (Note 2)		230,088	2,401,901	
Accounts Receivable (Note 4)				
Federal Government	475,395	219,717		
State Governments	1,029,673	291,726		
Local Governments	175,183			156,756
Interest	406,240	38,326		275,765
Miscellaneous	54,660	9,010		65,693
Due from Other Funds (Note 5)	223,604	60,557		71,205
Stores Inventory	182,266	18,884		
Prepaid Expenses	10,027			
Amount Available in Debt Service				
Amount to be Provided for:				
Retirement of General Long-Term Debt				
<b>Total Assets</b>	<b>\$ 7,880,653</b>	<b>\$ 2,418,361</b>	<b>\$ 6,550,492</b>	<b>\$ 10,635,717</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts Payable	\$ 2,355,217	\$ 136,785		\$ 244,402
Due to Other Funds (Note 5)	62,139	168,296		124,931
Deferred Income (Note 1L)	732,507			
Due to Student Groups				
Compensated Absences (Note 1H)				
General Obligation Bonds Payable				
Certificates of Participation (Note 6)				
Capital Leases (Note 7)				
<b>Total Liabilities</b>	<b>3,149,863</b>	<b>305,081</b>		<b>369,333</b>
<b>Fund Balances: (Note 1I)</b>				
Legally Restricted	1,016,998			
Reserved	206,793	24,884		
Unreserved:				
Designated Fund Balances	2,809,428	412,470	\$ 2,401,901	
Undesignated Fund Balances	697,571	1,675,926	4,148,591	10,266,384
<b>Total Fund Balances</b>	<b>4,730,790</b>	<b>2,113,280</b>	<b>6,550,492</b>	<b>10,266,384</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 7,880,653</b>	<b>\$ 2,418,361</b>	<b>\$ 6,550,492</b>	<b>\$ 10,635,717</b>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS



Fiduciary Fund Type	Account Group General Long-Term Debt	Totals (Memorandum Only)	
		June 30	
		1999	1998
\$ 198,893		\$ 20,872,393	\$ 22,442,889
		394,547	381,349
		20,500	16,500
		2,631,989	3,459,355
		695,112	418,310
		1,321,399	940,983
		331,939	260,732
		720,331	342,534
		129,363	36,395
		355,366	287,646
		201,150	264,117
		10,027	2,739
	\$ 6,521,285	6,521,285	8,007,780
	2,607,000	2,607,000	5,840,776
	<u>\$ 198,893</u>	<u>\$ 36,812,401</u>	<u>\$ 42,702,105</u>
\$ 189,215		\$ 2,736,404	\$ 2,183,032
		355,366	287,646
		732,507	977,220
		189,215	164,858
	\$ 198,868	198,868	221,624
	8,765,000	8,765,000	1,055,000
	164,417	164,417	12,385,000
			186,932
	189,215	13,141,777	17,461,312
9,678		1,016,998	508,210
		231,677	283,356
		5,623,799	6,174,701
		16,798,150	18,274,526
9,678	0	23,670,624	25,240,793
<u>\$ 198,893</u>	<u>\$ 9,128,285</u>	<u>\$ 36,812,401</u>	<u>\$ 42,702,105</u>



**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, 1999**

	Governmental Fund Types				Fiduciary Fund Type	Totals (Memorandum Only)	
	General	Special Revenues	Debt Service	Capital Projects	Expendable Trust	1999	June 30 1998
<b>REVENUES</b>							
Revenue Limit Sources:							
State Apportionments	\$ 8,690,674	\$ 363,550				\$ 9,054,224	\$ 10,819,404
Local Sources	26,172,767					26,172,767	23,614,136
Total Revenue Limit	34,863,441	363,550				35,226,991	34,433,540
Federal Revenue	1,294,654	876,916				2,171,570	1,937,668
Other State Revenue	10,034,013	818,061	\$ 78,893	\$ 680,000		11,610,967	8,626,306
Other Local Revenue	2,382,606	1,168,734	3,928,765	3,525,052	\$ 297	11,005,454	9,101,977
Total Revenues	48,574,714	3,227,261	4,007,658	4,205,052	297	60,014,982	54,099,491
<b>EXPENDITURES</b>							
Certificated Salaries	25,463,095	301,621				25,764,716	24,109,899
Classified Salaries	6,989,326	613,619		3,034		7,605,979	7,153,933
Employee Benefits	6,483,321	202,376		290		6,685,987	6,769,286
Books and Supplies	2,210,595	886,624		331	1,700	3,099,250	3,328,763
Services and Other							
Operating Expenditures	3,942,357	551,373	12,618	2,870,494		7,376,842	5,435,127
Capital Outlay	1,868,944	531,043		2,317,947		4,717,934	951,957
Debt Service:							
Principal Retirement	5,171		4,675,000	36,000		4,716,171	3,731,000
Interest and Fiscal Charges	135		605,431			605,566	823,925
Other Outgo	668,342	174,184				842,526	375,552
Total Expenditures	47,631,286	3,260,840	5,293,049	5,228,096	1,700	61,414,971	52,679,442
Excess of Revenues Over (Under) Expenditures	943,428	(33,579)	(1,285,391)	(1,023,044)	(1,403)	(1,399,989)	1,420,049
Other Financing Sources (Uses):							
Operating Transfers In	55,098	249,137	4,463,607	365,266		5,133,108	5,086,270
Operating Transfers Out	(249,137)		(4,463,607)	(420,364)		(5,133,108)	(5,086,270)
Other Sources				1,717		1,717	1,902,542
Other Uses			(171,897)			(171,897)	(91,365)
Total Other Financing Sources (Uses)	(194,039)	249,137	(171,897)	(53,381)	0	(170,180)	1,811,177
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	749,389	215,558	(1,457,288)	(1,076,425)	(1,403)	(1,570,169)	3,231,226
Fund Balances - July 1, 1998	3,981,401	1,897,722	8,007,780	11,342,809	11,081	25,240,793	22,009,567
Fund Balances - June 30, 1999	\$ 4,730,790	\$ 2,113,280	\$ 6,550,492	\$ 10,266,384	\$ 9,678	\$ 23,670,624	\$ 25,240,793

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

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, 1999

	General Fund			Special Revenue Funds		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>						
Revenue Limit Sources:						
State Apportionments	\$ 26,347,165	\$ 8,690,674	\$ (17,656,491)	\$ 341,613	\$ 363,550	\$ 21,937
Local Sources	9,140,523	26,172,767	17,032,244			
Total Revenue Limit	35,487,688	34,863,441	(624,247)	341,613	363,550	21,937
Federal Revenue	1,420,272	1,294,654	(125,618)	872,896	876,916	4,020
Other State Revenue	11,483,540	10,034,013	(1,449,527)	844,198	818,061	(26,137)
Other Local Revenue	2,268,398	2,382,606	114,208	1,195,436	1,168,734	(26,702)
Total Revenues	50,659,898	48,574,714	(2,085,184)	3,254,143	3,227,261	(26,882)
<b>EXPENDITURES</b>						
Certificated Salaries	25,948,556	25,463,095	485,461	312,152	301,621	10,531
Classified Salaries	7,236,403	6,989,326	247,077	636,006	613,619	22,387
Employee Benefits	6,692,321	6,483,321	209,000	225,285	202,376	22,909
Books and Supplies	3,783,000	2,210,595	1,572,405	986,205	886,624	99,581
Services and Other						
Operating Expenditures	4,759,847	3,942,357	817,490	586,874	551,373	35,501
Capital Outlay	3,015,098	1,868,944	1,146,154	564,717	531,043	33,674
Debt Service:						
Principal Retirement	5,171	5,171				
Interest and Fiscal Charges	135	135				
Other Outgo	628,385	668,342	(39,957)	66,422	174,184	(107,762)
Total Expenditures	52,068,916	47,631,286	4,437,630	3,377,661	3,260,840	116,821
Excess of Revenues Over (Under) Expenditures	(1,409,018)	943,428	2,352,446	(123,518)	(33,579)	89,939
Other Financing Sources (Uses):						
Operating Transfers In	369,402	55,098	(314,304)	249,137	249,137	
Operating Transfers Out	(233,465)	(249,137)	(15,672)			
Other Sources						
Other Uses						
Total Other Financing Sources (Uses)	135,937	(194,039)	(329,976)	249,137	249,137	
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>\$ (1,273,081)</u>	<u>749,389</u>	<u>\$ 2,022,470</u>	<u>\$ 125,619</u>	<u>215,558</u>	<u>\$ 89,939</u>
Fund Balances - July 1, 1998		<u>3,981,401</u>			<u>1,897,722</u>	
Fund Balances - June 30, 1999		<u>\$ 4,730,790</u>			<u>\$ 2,113,280</u>	

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)
						\$ 26,688,778	\$ 9,054,224	\$ (17,634,554)
						9,140,523	26,172,767	17,032,244
						35,829,301	35,226,991	(602,310)
						2,293,168	2,171,570	(121,598)
\$ 80,000	\$ 78,893	\$ (1,107)	\$ 680,000	\$ 680,000	\$	13,087,738	11,610,967	(1,476,771)
4,060,414	3,928,765	(131,649)	3,543,352	3,525,052	(18,300)	11,067,600	11,005,157	(62,443)
4,140,414	4,007,658	(132,756)	4,223,352	4,205,052	(18,300)	62,277,807	60,014,685	(2,263,122)
						26,260,708	25,764,716	495,992
			10,753	3,034	7,719	7,883,162	7,605,979	277,183
			1,054	290	764	6,918,660	6,685,987	232,673
			907	331	576	4,770,112	3,097,550	1,672,562
12,618	12,618		3,479,413	2,870,494	608,919	8,838,752	7,376,842	1,461,910
			2,322,036	2,317,947	4,089	5,901,851	4,717,934	1,183,917
	4,675,000	(4,675,000)	36,000	36,000		41,171	4,716,171	(4,675,000)
	605,431	(605,431)				135	605,566	(605,431)
						694,807	842,526	(147,719)
12,618	5,293,049	(5,280,431)	5,850,163	5,228,096	622,067	61,309,358	61,413,271	(103,913)
4,127,796	(1,285,391)	(5,413,187)	(1,626,811)	(1,023,044)	603,767	968,449	(1,398,586)	(2,367,035)
(4,828,728)	4,463,607	4,463,607	365,266	365,266		983,805	5,133,108	4,149,303
	(4,463,607)	365,121	(420,365)	(420,364)	1	(5,482,558)	(5,133,108)	349,450
			1,717	1,717		1,717	1,717	
	(171,897)	(171,897)					(171,897)	(171,897)
(4,828,728)	(171,897)	4,656,831	(53,382)	(53,381)	1	(4,497,036)	(170,180)	4,326,856
\$ (700,932)	(1,457,288)	\$ (756,356)	\$ (1,680,193)	(1,076,425)	\$ 603,768	\$ (3,528,587)	(1,568,766)	\$ 1,959,821
	8,007,780			11,342,809			25,229,712	
\$ 6,550,492			\$ 10,266,384			\$ 23,660,946		

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1999

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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. At 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, 1999

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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.

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1999

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NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Fund Accounting (Continued)

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.
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. The bond was paid off in 1998/99.
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.



MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1999

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NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Fund Accounting (Concluded)

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.

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.

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1999

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NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 or the Corporation Debt Service – COPs.

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.

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, 1999 was estimated at \$198,868.

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.

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1999

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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	\$ 993,840
Tenth Grade Counseling	3,394
Gifted and Talented	<u>19,764</u>
Total	<u>\$ 1,016,998</u>

Fund balances are reserved as follows:

	General <u>Fund</u>	Cafeteria <u>Fund</u>	Adult Education <u>Fund</u>	<u>Totals</u>
Reserved for Revolving Cash	\$ 14,500	\$ 1,000	\$5,000	\$ 20,500
Reserved for Stores Inventory	182,266	18,884		201,150
Reserved for Prepaid Assets	<u>10,027</u>	<u>      </u>	<u>      </u>	<u>10,027</u>
	<u>\$206,793</u>	<u>\$19,884</u>	<u>\$5,000</u>	<u>\$231,677</u>

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.

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1999

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Fund Balance Reserves and Designations (Concluded)

The Designated Fund Balance represents the following:

	General Fund	Cafeteria Fund	Adult Education Fund	Special Reserve	Corporation Debt Service Bonds	Corporation Debt Service COPS	Totals
Designated for Economic Uncertainties	\$1,502,369	\$ 55,874					\$1,558,243
Designated for Medi-Cal	4,999						4,999
Designated for Board Communications	35,000						35,000
Designated for District Office HVAC	75,000			75,000			150,000
Designated for Sub System Replacement	25,000						25,000
Designated for Certificated Staff Needs	362,197						362,197
Designated for Classified Staff Needs	15,980						15,980
Designated for Music/After-School	30,887						30,887
Designated for Deferred Maintenance Transfer	135,000						135,000
Designated for Adult Ed Complex			\$81,596				81,596
Designated for Independent Study Penalty	11,555						11,555
Designated for Attorney Fees	50,000						50,000
Designated Kitchen Improvements		200,000					200,000
Designated for School Sites	383,249						383,249
Designated for Special Ed Encroachment	98,192						98,192
Designated for T1/Training	80,000						80,000
Designated for Debt Service					\$29,207	\$2,372,694	2,401,901
Total	<u>\$2,809,428</u>	<u>\$255,874</u>	<u>\$81,596</u>	<u>\$75,000</u>	<u>\$29,207</u>	<u>\$2,372,694</u>	<u>\$5,623,799</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, 1999

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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, 1999 consisted of the following:

Deposits:

Cash on Hand and in Banks	\$ 394,547
Cash in Revolving Fund	20,500
Pooled Fund:	
Cash in County Treasury	20,872,393

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, 1999

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, 1999, 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	\$ 230,088	\$ -	\$ 230,088	\$ 230,088
Government Securities	<u>2,401,901</u>	<u>\$ -</u>	<u>2,401,901</u>	<u>2,401,901</u>
Total Investments	<u>\$ 2,631,989</u>	<u>\$ 0</u>	<u>\$ 2,631,989</u>	<u>\$ 2,631,989</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:

General Fund:	
Other Outgo	\$ 39,957
Transfer Out	15,672
Special Revenue Fund:	
Cafeteria Fund:	
Other Outgo	107,560
Adult Education:	
Other Outgo	202

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, 1999

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>\$ 475,395</u>	<u>\$219,717</u>	<u>\$ -</u>	<u>\$ 695,112</u>
State Government				
Categorical Aid Programs	\$ 17,428	\$ 41,329	\$ -	\$ 58,757
State Aid		9,759		9,759
Lottery	574,352	-	-	574,352
Deferred Maintenance	-	240,638	-	240,638
Other	<u>437,893</u>	<u>-</u>	<u>-</u>	<u>437,893</u>
Total State	<u>\$1,029,673</u>	<u>\$291,726</u>	<u>\$ -</u>	<u>\$1,321,399</u>
Local Governments	<u>\$ 175,183</u>		<u>\$156,756</u>	<u>\$ 331,939</u>
Interest	<u>\$ 406,240</u>	<u>\$ 38,326</u>	<u>\$275,765</u>	<u>\$ 720,331</u>
Miscellaneous	<u>\$ 54,660</u>	<u>\$ 9,010</u>	<u>\$ 65,693</u>	<u>\$ 129,363</u>

NOTE 5 – INTERFUND TRANSACTIONSInterfund Receivables and Payables

Individual fund interfund receivables and payables balances as of June 30, 1999 are as follows:

	<u>Receivable</u>	<u>Payable</u>
General Fund	\$223,604	\$ 62,139
Deferred Maintenance		807
Cafeteria		109,450
Adult Education	60,557	41,857
Child Development		16,182
Building fund		69,620
Capital Facilities Fund	71,205	18,356
Mello Roos Fund		<u>36,955</u>
Total	<u>\$355,366</u>	<u>\$355,366</u>

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1999

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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, 1999 were as follows:

Transfer from the General Fund to the Deferred Maintenance Fund to meet the state match requirements	\$ 239,137
Transfer from the General Fund to the Adult Education Fund to cover operating expenses	10,000
Transfer from the Capital Facilities Fund to the General Fund for indirect costs for impact fee collection	55,098
Transfer from the Building Fund to the Capital Facilities Fund for the partial repayment of capital loan	365,266
Transfer from the Tax Override Fund to the Corporate Debt Service – Bonds Fund to provide resources for debt principal and interest payments	269,915
Transfer from the Tax Override Fund to the Corporate Debt Service – COPs Fund to provide resources for debt principal and interest payments	<u>4,193,692</u>
Total Transfers	<u>\$5,133,108</u>



MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1999

NOTE 6 – 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, 1998</u>	<u>Current Year Redeemed</u>	<u>Outstanding June 30, 1999</u>
1991	5.0 – 6.0	2001	\$ 6,595,000	\$ 3,135,000	\$ 985,000	\$2,150,000
1992	4.5 – 5.9	2001	6,850,000	3,245,000	1,020,000	2,225,000
1993	3.1 – 5.0	2001	7,470,000	4,575,000	1,230,000	3,345,000
1994	3.75 – 5.3	2001	<u>2,155,000</u>	<u>1,430,000</u>	<u>385,000</u>	<u>1,045,000</u>
			<u>\$23,070,000</u>	<u>\$12,385,000</u>	<u>\$3,620,000</u>	<u>\$8,765,000</u>

The last payments on the Certificates of Participation will be made in August 2000. Annual maturities of Certificates as of June 30, 1999 are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1991 Issue:			
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>\$2,150,000</u>	<u>\$129,000</u>	<u>\$2,279,000</u>
1992 Issue:			
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>\$2,225,000</u>	<u>\$ 130,195</u>	<u>\$2,355,195</u>
1993 Issue:			
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>\$3,345,000</u>	<u>\$ 164,230</u>	<u>\$3,509,230</u>
1994 Issue:			
2000	470,000	23,970	493,970
2001	<u>575,000</u>	<u>30,475</u>	<u>605,475</u>
Totals	<u>\$1,045,000</u>	<u>\$ 54,445</u>	<u>\$1,099,445</u>

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1999

NOTE 7 – CAPITAL 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>
2000	\$ 41,261
2001	120,193
2002	<u>5,261</u>
Total	166,715
Less portion representing interest	<u>(2,298)</u>
Present value of net minimum lease payments	<u>\$164,417</u>

The District will receive no sublease rental revenues nor pay any contingent rentals for this equipment.

NOTE 8 – LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 1999 is shown below:

	<u>Balance</u> <u>July 1, 1998</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 1999</u>
General Obligation Bonds	\$ 1,055,000	\$ -	\$1,055,000	\$ 0
Certificates of Participation (Note 6)	12,385,000	-	3,620,000	8,765,000
Capital lease obligations (Note 7)	186,932	18,656	41,171	164,417
Compensated absences (Note 1H)	<u>221,624</u>	<u>-</u>	<u>22,756</u>	<u>198,868</u>
Totals	<u>\$13,848,556</u>	<u>\$18,656</u>	<u>\$4,738,927</u>	<u>\$ 9,128,285</u>

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1999

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NOTE 9 – 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 1998-99 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, 1999, 1998, and 1997 were \$2,189,302, \$1,785,984, and \$1,626,810, respectively, and equal 100% of the required contributions for each year.

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.

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1999

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NOTE 9 – EMPLOYEE RETIREMENT SYSTEMS (CONCLUDED)

California Public Employees Retirement System (CalPERS) (Concluded)

*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 1998/99 was 0% of annual payroll. 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, 1999, 1998 and 1997 were \$0, \$591,103 and \$442,873, 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 10 - 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.

NOTE 11 – 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.

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1999

NOTE 12 – 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, 1999 is as follows:

Total assets	\$24,920,149
Total liabilities	<u>13,054,604</u>
Fund balance	<u>\$11,865,545</u>
Total revenues	\$18,553,631
Total expenditures	<u>16,441,763</u>
Net increase in fund balance	<u>\$ 2,111,868</u>

The JPA did not have long-term debt outstanding at June 30, 1999. The District’s share of year-end assets, liabilities, or accumulated deficit has not been calculated.

NOTE 13 – RESTATEMENT OF FUND BALANCES

Contract services expenditures were understated in the Building Fund at June 30, 1998 by \$275,000 and overstated by \$275,000 in the Mello Roos Fund. The June 30, 1998 fund balances have been restated to reflect the corrections as follows:

	<u>Building Fund</u>	<u>Mello Roos Fund</u>
Fund Balance, June 30, 1998 as originally reported	\$2,614,438	\$3,547,462
Understatement of contract services expenditures	275,000	
Overstatement of contract services expenditures	<u>                    </u>	<u>(275,000)</u>
Fund Balance, June 30, 1998 as restated	<u>\$2,889,438</u>	<u>\$3,272,462</u>

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1999

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NOTE 14 – SUBSEQUENT EVENT

On July 2, 1999, the District issued \$7,955,000 in tax and revenue anticipation notes at a premium of \$61,651. The notes mature on July 3, 2000 and bear interest at 5.65% (priced to yield 3.10%). 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, 1999

	Deferred Maintenance	Cafeteria	Adult Education	Child Development	Special Reserve	Totals
<u>ASSETS</u>						
Cash in County Treasury	\$ 227,629	\$ 438,046	\$ 36,621	\$ 77,685	\$ 757,703	\$ 1,537,684
Cash on Hand and in Bank		1,755	4,614			6,369
Cash in Revolving Fund		1,000	5,000			6,000
Investments		230,088				230,088
Accounts Receivable						
Federal Government		181,092	38,625			219,717
State Government	240,638	12,538	9,759	28,791		291,726
Interest	5,329	8,987	225	4,213	19,572	38,326
Miscellaneous		120	8,890			9,010
Due from Other Funds			60,557			60,557
Stores Inventory		18,884				18,884
Total Assets	<u>\$ 473,596</u>	<u>\$ 892,510</u>	<u>\$ 164,291</u>	<u>\$ 110,689</u>	<u>\$ 777,275</u>	<u>\$ 2,418,361</u>
<u>LIABILITIES AND FUND BALANCES</u>						
Liabilities:						
Accounts Payable	\$ 263	\$ 6,177	\$ 35,838	\$ 94,507		\$ 136,785
Due to Other Funds	807	109,450	41,857	16,182		168,296
Total Liabilities	<u>1,070</u>	<u>115,627</u>	<u>77,695</u>	<u>110,689</u>		<u>305,081</u>
Fund Balances:						
Reserved		19,884	5,000			24,884
Unreserved						
Designated		255,874	81,596		\$ 75,000	412,470
Undesignated	472,526	501,125			702,275	1,675,926
Total Fund Balances	<u>472,526</u>	<u>776,883</u>	<u>86,596</u>	<u>0</u>	<u>777,275</u>	<u>2,113,280</u>
Total Liabilities and Fund Balances	<u>\$ 473,596</u>	<u>\$ 892,510</u>	<u>\$ 164,291</u>	<u>\$ 110,689</u>	<u>\$ 777,275</u>	<u>\$ 2,418,361</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  
SPECIAL REVENUE FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999

	Deferred Maintenance	Cafeteria	Adult Education	Child Development	Special Reserve	Totals
<u>REVENUES</u>						
Revenue Limit Sources:						
State Apportionment			\$ 363,550		\$	363,550
Federal Sources:						
Child Nutrition Program		\$ 720,480				720,480
Other			156,436			156,436
Other State Sources:						
State Nutrition Program		49,931				49,931
Other	\$ 255,206		51,815	\$ 461,109		768,130
Other Local Sources:						
Food Service Sales		993,226				993,226
Interest	7,705	30,725	2,093	8,552	\$ 40,094	89,169
Other			86,339			86,339
Total Revenues	262,911	1,794,362	660,233	469,661	40,094	3,227,261
<u>EXPENDITURES</u>						
Certificated Salaries			301,621			301,621
Classified Salaries	6,005	493,883	113,731			613,619
Employee Benefits	915	134,180	67,281			202,376
Books and Supplies		870,107	16,517			886,624
Services and Other						
Operating Expenditures	9,294	42,742	54,302	445,035		551,373
Capital Outlay	357,173	14,007	159,863			531,043
Other Outgo	782	107,560	41,216	24,626		174,184
Total Expenditures	374,169	1,662,479	754,531	469,661	0	3,260,840
Excess of Revenues Over (Under) Expenditures	(111,258)	131,883	(94,298)	0	40,094	(33,579)
Other Financing Sources (Uses):						
Operating Transfers In	239,137		10,000			249,137
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	127,879	131,883	(84,298)		40,094	215,558
Fund Balances - July 1, 1998	344,647	645,000	170,894	0	737,181	1,897,722
Fund Balances - June 30, 1999	<u>\$ 472,526</u>	<u>\$ 776,883</u>	<u>\$ 86,596</u>	<u>\$ 0</u>	<u>\$ 777,275</u>	<u>\$ 2,113,280</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, 1999

	DEFERRED MAINTENANCE		
	Budget	Actual	Variance Favorable (Unfavorable)
<u>REVENUES</u>			
Other State Revenue	\$ 255,206	\$ 255,206	\$
Interest Income	8,500	7,705	(795)
Total Revenues	263,706	262,911	(795)
<u>EXPENDITURES</u>			
Classified Salaries	6,005	6,005	
Employee Benefits	1,002	915	87
Books and Supplies	6,892		6,892
Services and Other			
Operating Expenditures	9,294	9,294	
Capital Outlay	357,234	357,173	61
Other Outgo	782	782	
Total Expenditures	381,209	374,169	7,040
Excess of Revenues Over (Under) Expenditures	(117,503)	(111,258)	6,245
Other Financing Sources (Uses): Operating Transfers In	239,137	239,137	
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>\$ 121,634</u>	127,879	<u>\$ 6,245</u>
Fund Balance - July 1, 1998		344,647	
Fund Balance - June 30, 1999		<u>\$ 472,526</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, 1999

	CAFETERIA		
	Budget	Actual	Variance Favorable (Unfavorable)
<u>REVENUES</u>			
Federal Revenue	\$ 720,480	\$ 720,480	
Other State Revenue	49,931	49,931	
Other Local Revenue	993,226	993,226	
Interest Income	30,725	30,725	
Total Revenues	<u>1,794,362</u>	<u>1,794,362</u>	<u>\$ 0</u>
<u>EXPENDITURES</u>			
Classified Salaries	510,113	493,883	16,230
Employee Benefits	154,244	134,180	20,064
Books and Supplies	914,906	870,107	44,799
Services and Other Operating Expenditures	50,600	42,742	7,858
Capital Outlay	18,100	14,007	4,093
Other Outgo		107,560	(107,560)
Total Expenditures	<u>1,647,963</u>	<u>1,662,479</u>	<u>(14,516)</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ 146,399</u>	131,883	<u>\$ (14,516)</u>
Fund Balance - July 1, 1998		<u>645,000</u>	
Fund Balance - June 30, 1999		<u>\$ 776,883</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, 1999

	ADULT EDUCATION		
	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>			
Revenue Limit Sources:			
State Apportionments	\$ 341,613	\$ 363,550	\$ 21,937
Federal Revenue	152,416	156,436	4,020
Other State Revenue	51,815	51,815	
Other Local Revenue	105,066	86,339	(18,727)
Interest Income	9,000	2,093	(6,907)
Total Revenues	659,910	660,233	323
<b>EXPENDITURES</b>			
Certificated Salaries	312,152	301,621	10,531
Classified Salaries	119,888	113,731	6,157
Employee Benefits	70,039	67,281	2,758
Books and Supplies	64,407	16,517	47,890
Services and Other			
Operating Expenditures	55,535	54,302	1,233
Capital Outlay	189,383	159,863	29,520
Other Outgo	41,014	41,216	(202)
Total Expenditures	852,418	754,531	97,887
Excess of Revenues Over (Under) Expenditures	(192,508)	(94,298)	98,210
Other Financing Sources (Uses):			
Operating Transfers In	10,000	10,000	
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>\$ (182,508)</u>	<u>(84,298)</u>	<u>\$ 98,210</u>
Fund Balance - July 1, 1998		170,894	
Fund Balance - June 30, 1999		<u>\$ 86,596</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, 1999

	CHILD DEVELOPMENT		
	Budget	Actual	Variance Favorable (Unfavorable)
<u>REVENUES</u>			
Other State Revenue	\$ 487,246	\$ 461,109	\$ (26,137)
Interest Income	8,825	8,552	(273)
Total Revenues	496,071	469,661	(26,410)
<u>EXPENDITURES</u>			
Services and Other			
Operating Expenditures	471,445	445,035	26,410
Other Outgo	24,626	24,626	
Total Expenditures	496,071	469,661	26,410
Excess of Revenues Over (Under) Expenditures	<u>\$ 0</u>		<u>\$ 0</u>
Fund Balance - July 1, 1998		0	
Fund Balance - June 30, 1999		<u>\$ 0</u>	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

MORGAN HILL UNIFIED SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES AND  
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
 SPECIAL REVENUE FUNDS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 1999

	SPECIAL RESERVE		Variance Favorable (Unfavorable)
	Budget	Actual	
<u>REVENUES</u>			
Interest Income	\$ 40,094	\$ 40,094	
Total Revenues	40,094	40,094	\$ 0
Excess of Revenues Over (Under) Expenditures	\$ <u>40,094</u>	40,094	\$ <u>0</u>
Fund Balance - July 1, 1998		<u>737,181</u>	
Fund Balance - June 30, 1999		<u>\$ 777,275</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, 1999

	TOTAL SPECIAL REVENUE FUNDS		
	Budget	Actual	Variance Favorable (Unfavorable)
<u>REVENUES</u>			
Revenue Limit Sources:			
State Apportionments	\$ 341,613	\$ 363,550	\$ 21,937
Federal Revenue	872,896	876,916	4,020
Other State Revenue	844,198	818,061	(26,137)
Other Local Revenue	1,098,292	1,079,565	(18,727)
Interest Income	97,144	89,169	(7,975)
Total Revenues	<u>3,254,143</u>	<u>3,227,261</u>	<u>(26,882)</u>
<u>EXPENDITURES</u>			
Certificated Salaries	312,152	301,621	10,531
Classified Salaries	636,006	613,619	22,387
Employee Benefits	225,285	202,376	22,909
Books and Supplies	986,205	886,624	99,581
Services and Other			
Operating Expenditures	586,874	551,373	35,501
Capital Outlay	564,717	531,043	33,674
Other Outgo	66,422	174,184	(107,762)
Total Expenditures	<u>3,377,661</u>	<u>3,260,840</u>	<u>116,821</u>
Excess of Revenues Over (Under) Expenditures	(123,518)	(33,579)	89,939
Other Financing Sources (Uses):			
Operating Transfers In	<u>249,137</u>	<u>249,137</u>	
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>\$ 125,619</u>	<u>215,558</u>	<u>\$ 89,939</u>
Fund Balance - July 1, 1998		<u>1,897,722</u>	
Fund Balance - June 30, 1999		<u>\$ 2,113,280</u>	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

MORGAN HILL UNIFIED SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
DEBT SERVICE FUNDS  
JUNE 30, 1999

	Tax Override	Corporation Debt Service - Bonds	Corporation Debt Service - COPS	Totals
<u>ASSETS</u>				
Cash in County Treasury	\$ 4,148,591			\$ 4,148,591
Investments		\$ 29,207	\$ 2,372,694	2,401,901
Total Assets	<u>\$ 4,148,591</u>	<u>\$ 29,207</u>	<u>\$ 2,372,694</u>	<u>\$ 6,550,492</u>
<u>FUND BALANCES</u>				
Fund Balances:				
Unreserved				
Designated		\$ 29,207	\$ 2,372,694	\$ 2,401,901
Undesignated	\$ 4,148,591			4,148,591
Total Fund Balances	<u>4,148,591</u>	<u>29,207</u>	<u>2,372,694</u>	<u>6,550,492</u>
Total Liabilities and Fund Balances	<u>\$ 4,148,591</u>	<u>\$ 29,207</u>	<u>\$ 2,372,694</u>	<u>\$ 6,550,492</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, 1999

	Tax Override	Corporation Debt Service - Bonds	Corporation Debt Service - COPS	Totals
<u>REVENUES</u>				
Other State Sources:				
Other	\$ 78,893			\$ 78,893
Local Sources:				
Interest		\$ 7,969	\$ 138,478	146,447
Other	3,782,318			3,782,318
Total Revenues	3,861,211	7,969	138,478	4,007,658
<u>EXPENDITURES</u>				
Services and Other				
Operating Expenditures	12,618			12,618
Debt Service:				
Principal Retirement		1,055,000	3,620,000	4,675,000
Interest and Fiscal Charges		31,738	573,693	605,431
Total Expenditures	12,618	1,086,738	4,193,693	5,293,049
Excess of Revenues Over (Under) Expenditures	3,848,593	(1,078,769)	(4,055,215)	(1,285,391)
Other Financing Sources (Uses):				
Operating Transfers In		269,915	4,193,692	4,463,607
Operating Transfers Out	(4,463,607)			(4,463,607)
Other Uses		(11,081)	(160,816)	(171,897)
Total Other Financing Sources (Uses):	(4,463,607)	258,834	4,032,876	(171,897)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(615,014)	(819,935)	(22,339)	(1,457,288)
Fund Balances - July 1, 1998	4,763,605	849,142	2,395,033	8,007,780
Fund Balances - June 30, 1999	\$ 4,148,591	\$ 29,207	\$ 2,372,694	\$ 6,550,492

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, 1999

	TAX OVERRIDE		
	Budget	Actual	Variance Favorable (Unfavorable)
<u>REVENUES</u>			
Other State Revenue	\$ 80,000	\$ 78,893	\$ (1,107)
Other Local Revenue	4,060,414	3,782,318	(278,096)
Total Revenues	4,140,414	3,861,211	(279,203)
<u>EXPENDITURES</u>			
Services and Other Operating Expenditures	12,618	12,618	
Excess of Revenues Over (Under) Expenditures	4,127,796	3,848,593	(279,203)
Other Financing Sources (Uses): Operating Transfers Out	(4,828,728)	(4,463,607)	365,121
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>\$ (700,932)</u>	(615,014)	<u>\$ 85,918</u>
Fund Balances - July 1, 1998		4,763,605	
Fund Balances - June 30, 1999		<u>\$ 4,148,591</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, 1999

	TOTAL DEBT SERVICE FUNDS		
	Budget	Actual	Variance Favorable (Unfavorable)
<u>REVENUES</u>			
Other State Revenue	\$ 80,000	\$ 78,893	\$ (1,107)
Other Local Revenue	4,060,414	3,782,318	(278,096)
Interest Income		146,447	146,447
Total Revenues	4,140,414	4,007,658	(132,756)
<u>EXPENDITURES</u>			
Services and Other Operating Expenditures	12,618	12,618	
Debt Service:			
Principal Retirement		4,675,000	(4,675,000)
Interest and Fiscal Charges		605,431	(605,431)
Total Expenditures	12,618	5,293,049	(5,280,431)
Excess of Revenues Over (Under) Expenditures	4,127,796	(1,285,391)	(5,413,187)
Other Financing Sources (Uses):			
Operating Transfers In		4,463,607	4,463,607
Operating Transfers Out	(4,828,728)	(4,463,607)	365,121
Other Uses		(171,897)	(171,897)
Total Other Financing Sources (Uses)	(4,828,728)	(171,897)	4,656,831
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>\$ (700,932)</u>	(1,457,288)	<u>\$ (756,356)</u>
Fund Balances - July 1, 1998		8,007,780	
Fund Balances - June 30, 1999		<u>\$ 6,550,492</u>	

MORGAN HILL UNIFIED SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
CAPITAL PROJECT FUNDS  
JUNE 30, 1999

	Mello Roos	Building	Capital Facilities	Roof Replacement	Totals
<u>ASSETS</u>					
Cash in County Treasury	\$ 2,204,043	\$ 2,787,186	\$ 4,988,991	\$ 378	\$ 9,980,598
Cash on Hand in Bank	38,984		46,716		85,700
Accounts Receivable					
Local Governments	156,756				156,756
Interest	76,342	76,585	122,828	10	275,765
Miscellaneous		65,693			65,693
Due from Other Funds			71,205		71,205
Total Assets	<u>\$ 2,476,125</u>	<u>\$ 2,929,464</u>	<u>\$ 5,229,740</u>	<u>\$ 388</u>	<u>\$ 10,635,717</u>
<u>LIABILITIES AND FUND BALANCES</u>					
Liabilities:					
Accounts Payable	\$ 225,624	\$ 1,459	\$ 16,971	\$ 348	\$ 244,402
Due to Other Funds	36,955	69,620	18,356		124,931
Total Liabilities	262,579	71,079	35,327	348	369,333
Fund Balances:					
Unreserved					
Undesignated	2,213,546	2,858,385	5,194,413	40	10,266,384
Total Liabilities and Fund Balances	<u>\$ 2,476,125</u>	<u>\$ 2,929,464</u>	<u>\$ 5,229,740</u>	<u>\$ 388</u>	<u>\$ 10,635,717</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, 1999

	Mello Roos	Building Fund	Capital Facilities	Roof Replacement	Totals
<u>REVENUES</u>					
Other State Sources:					
Other			\$ 680,000		\$ 680,000
Local Sources:					
Interest	\$ 165,825	\$ 156,075	276,833	\$ 40	598,773
Other	1,084,323	282,184	1,559,772		2,926,279
Total Revenues	1,250,148	438,259	2,516,605	40	4,205,052
<u>EXPENDITURES</u>					
Classified Salaries		782	2,252		3,034
Employee Benefits		75	215		290
Books and Supplies		106	225		331
Services and Other					
Operating Expenditures	681,899	58,415	2,130,180		2,870,494
Capital Outlay	1,627,165	46,385	644,397		2,317,947
Debt Service:					
Principal Retirement			36,000		36,000
Total Expenditures	2,309,064	105,763	2,813,269	0	5,228,096
Excess of Revenues Over (Under) Expenditures	(1,058,916)	332,496	(296,664)	40	(1,023,044)
Other Financing Sources (Uses):					
Operating Transfers In			365,266		365,266
Operating Transfers Out		(365,266)	(55,098)		(420,364)
Other Sources		1,717			1,717
Total Other Financing Sources (Uses):	0	(363,549)	310,168	0	(53,381)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(1,058,916)	(31,053)	13,504	40	(1,076,425)
Fund Balances - July 1, 1998	3,272,462	2,889,438	5,180,909	0	11,342,809
Fund Balances - June 30, 1999	<u>\$ 2,213,546</u>	<u>\$ 2,858,385</u>	<u>\$ 5,194,413</u>	<u>\$ 40</u>	<u>\$ 10,266,384</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  
CAPITAL PROJECT FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999

	MELLO ROOS		
	Budget	Actual	Variance Favorable (Unfavorable)
<u>REVENUES</u>			
Other Local Revenue	\$ 1,085,828	\$ 1,084,323	\$ (1,505)
Interest Income	165,826	165,825	(1)
Total Revenues	1,251,654	1,250,148	(1,506)
<u>EXPENDITURES</u>			
Services and Other			
Operating Expenditures	1,290,817	681,899	608,918
Capital Outlay	1,627,166	1,627,165	1
Total Expenditures	2,917,983	2,309,064	608,919
Excess of Revenues Over (Under) Expenditures	<u>\$ (1,666,329)</u>	(1,058,916)	<u>\$ 607,413</u>
Fund Balances - July 1, 1998		3,272,462	
Fund Balances - June 30, 1999		<u>\$ 2,213,546</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  
CAPITAL PROJECT FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999

	BUILDING		
	Budget	Actual	Variance Favorable (Unfavorable)
<u>REVENUES</u>			
Other Local Revenue	\$ 290,811	\$ 282,184	\$ (8,627)
Interest Income	156,075	156,075	
Total Revenues	446,886	438,259	(8,627)
<u>EXPENDITURES</u>			
Classified Salaries	8,500	782	7,718
Employee Benefits	815	75	740
Books and Supplies	106	106	
Services and Other Operating Expenditures	58,416	58,415	1
Capital Outlay	46,385	46,385	
Total Expenditures	114,222	105,763	8,459
Excess of Revenues Over (Under) Expenditures	332,664	332,496	(168)
Other Financing Sources (Uses):			
Operating Transfers Out	(365,266)	(365,266)	
Other Sources	1,717	1,717	
Total Other Financing Sources (Uses)	(363,549)	(363,549)	0
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>\$ (30,885)</u>	(31,053)	<u>\$ (168)</u>
Fund Balances - July 1, 1998		2,889,438	
Fund Balances - June 30, 1999		<u>\$ 2,858,385</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  
CAPITAL PROJECT FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999

	CAPITAL FACILITIES		
	Budget	Actual	Variance Favorable (Unfavorable)
<u>REVENUES</u>			
Other State Revenue	\$ 680,000	\$ 680,000	\$
Other Local Revenue	1,559,772	1,559,772	
Interest Income	285,000	276,833	(8,167)
Total Revenues	2,524,772	2,516,605	(8,167)
<u>EXPENDITURES</u>			
Classified Salaries	2,253	2,252	1
Employee Benefits	239	215	24
Books and Supplies	801	225	576
Services and Other Operating Expenditures	2,130,180	2,130,180	
Capital Outlay	648,485	644,397	4,088
Debt Service:			
Principal Retirement	36,000	36,000	
Total Expenditures	2,817,958	2,813,269	4,689
Excess of Revenues Over (Under) Expenditures	(293,186)	(296,664)	(3,478)
Other Financing Sources (Uses):			
Operating Transfers In	365,266	365,266	
Operating Transfers Out	(55,099)	(55,098)	1
Total Other Financing Sources (Uses)	310,167	310,168	1
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>\$ 16,981</u>	13,504	<u>\$ (3,477)</u>
Fund Balances - July 1, 1998		5,180,909	
Fund Balances - June 30, 1999		<u>\$ 5,194,413</u>	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

MORGAN HILL UNIFIED SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES AND  
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
 CAPITAL PROJECT FUNDS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 1999

	ROOF REPLACEMENT		
	Budget	Actual	Variance Favorable (Unfavorable)
<u>REVENUES</u>			
Interest Income		\$ 40	\$ 40
Total Revenues	<u>\$ 0</u>	40	<u>\$ 40</u>
Fund Balances - July 1, 1998		<u>0</u>	
Fund Balances - June 30, 1999		<u>\$ 40</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  
CAPITAL PROJECT FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999

	TOTAL CAPITAL PROJECTS FUNDS		
	Budget	Actual	Variance Favorable (Unfavorable)
<u>REVENUES</u>			
Other State Revenue	\$ 680,000	\$ 680,000	
Other Local Revenue	2,936,411	2,926,279	\$ (10,132)
Interest Income	606,941	598,773	(8,168)
Total Revenues	4,223,352	4,205,052	(18,300)
<u>EXPENDITURES</u>			
Classified Salaries	10,753	3,034	7,719
Employee Benefits	1,054	290	764
Books and Supplies	907	331	576
Services and Other			
Operating Expenditures	3,479,413	2,870,494	608,919
Capital Outlay	2,322,036	2,317,947	4,089
Debt Service:			
Principal Retirement	36,000	36,000	
Total Expenditures	5,850,163	5,228,096	622,067
Excess of Revenues Over (Under) Expenditures	(1,626,811)	(1,023,044)	603,767
Other Financing Sources (Uses):			
Operating Transfers In	365,266	365,266	
Operating Transfers Out	(420,365)	(420,364)	1
Other Sources	1,717	1,717	
Total Other Financing Sources (Uses)	(53,382)	(53,381)	1
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>\$ (1,680,193)</u>	(1,076,425)	<u>\$ 603,768</u>
Fund Balances - July 1, 1998		11,342,809	
Fund Balances - June 30, 1999		<u>\$ 10,266,384</u>	

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, 1999

	Expendable Trust <u>Scholarship Fund</u>	Agency Fund <u>Student Body</u>	<u>Totals</u>
ASSETS			
Cash in Bank	\$ 9,678	\$ 189,215	\$ 198,893
Total Assets	<u>\$ 9,678</u>	<u>\$ 189,215</u>	<u>\$ 198,893</u>
LIABILITIES AND FUND EQUITY			
Liabilities:			
Due to Student Groups		<u>\$ 189,215</u>	<u>\$ 189,215</u>
Total Liabilities		189,215	189,215
Fund Balance:			
Undesignated	<u>\$ 9,678</u>	<u>0</u>	<u>9,678</u>
Total Liabilities and Fund Balance	<u>\$ 9,678</u>	<u>\$ 189,215</u>	<u>\$ 198,893</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, 1999

	Balance July 1, 1998	Additions	Deductions	Balance June 30, 1999
<b><u>LIVE OAK HIGH SCHOOL</u></b>				
<b><u>ASSETS</u></b>				
Cash	<u>\$105,222</u>	<u>\$425,673</u>	<u>\$394,203</u>	<u>\$136,692</u>
<b><u>LIABILITIES</u></b>				
Due to Student Groups	<u>\$105,222</u>	<u>\$425,673</u>	<u>\$394,203</u>	<u>\$136,692</u>
<b><u>MARTIN MURPHY MIDDLE SCHOOL</u></b>				
<b><u>ASSETS</u></b>				
Cash	<u>\$ 24,473</u>	<u>\$112,052</u>	<u>\$116,598</u>	<u>\$ 19,927</u>
<b><u>LIABILITIES</u></b>				
Due to Student Groups	<u>\$ 24,473</u>	<u>\$112,052</u>	<u>\$116,598</u>	<u>\$ 19,927</u>
<b><u>BRITTON MIDDLE SCHOOL</u></b>				
<b><u>ASSETS</u></b>				
Cash	<u>\$ 35,163</u>	<u>\$151,179</u>	<u>\$153,746</u>	<u>\$ 32,596</u>
<b><u>LIABILITIES</u></b>				
Due to Student Groups	<u>\$ 35,163</u>	<u>\$151,179</u>	<u>\$153,746</u>	<u>\$ 32,596</u>
<b><u>TOTAL – ALL AGENCY FUNDS</u></b>				
<b><u>ASSETS</u></b>				
Cash	<u>\$164,858</u>	<u>\$688,904</u>	<u>\$664,547</u>	<u>\$189,215</u>
<b><u>LIABILITIES</u></b>				
Due to Student Groups	<u>\$164,858</u>	<u>\$688,904</u>	<u>\$664,547</u>	<u>\$189,215</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, 1999, and have issued our report thereon dated December 1, 1999. 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.

Except as described in the following paragraph, 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.

Governmental Accounting Standards Board Technical Bulletin 99-1, *Disclosures about Year 2000 Issues*, requires disclosure of certain matters regarding the year 2000 issue in order for financial statements to be prepared in conformity with generally accepted accounting principles. Such required disclosures include:

- any significant amount of resources committed to make computer systems and other electronic equipment year 2000-compliant;
- a general description of the year 2000 issue, including a description of the stages of work in process or completed as of the end of the reporting period to make computer systems and other electronic equipment critical to conducting operations year 2000-compliant; and
- the additional stages of work necessary for making the computer systems and other electronic equipment year 2000-compliant.

The Morgan Hill Unified School District has omitted such disclosures. We do not provide assurance that Morgan Hill Unified School District is or will be year 2000 ready, that Morgan Hill Unified School District's year 2000 remediation efforts will be successful in whole or in part, or that parties with which Morgan Hill Unified School District does business will be year 2000 ready.

Except as described in the preceding paragraph, 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.

  
GOODELL, PORTER & FREDERICKS, LLP  
Certified Public Accountants

December 1, 1999



MORGAN HILL UNIFIED SCHOOL DISTRICT

MORGAN HILL, CALIFORNIA

JUNE 30, 1999

---

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, 1999, 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 2002
Rick Herder	Member	November 2002
John Kennett	Member	November 2002
Tom Kinoshita	Member	November 2002
Jan Masuda	Member	November 2000

ADMINISTRATION

Dr. Carolyn McKenan  
Superintendent

MORGAN HILL UNIFIED SCHOOL DISTRICT  
SCHEDULE OF AVERAGE DAILY ATTENDANCE  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999

	Second Period <u>Report</u>	Annual <u>Report</u>
<u>Elementary</u>		
Kindergarten	659	659
First through Third	2,053	2,052
Fourth through Sixth	1,895	1,892
Seventh through Eighth	1,337	1,330
Opportunity Schools	6	7
Home and Hospital	1	0
Special Education	95	99
Extended year	<u>5</u>	<u>4</u>
Subtotals	<u>6,051</u>	<u>6,043</u>
<u>Secondary</u>		
Regular Classes	2,543	2,533
Special Education	46	45
Compulsory Continuation Education	87	84
Opportunity Schools	12	12
Home & Hospital	<u>3</u>	<u>3</u>
Subtotals	<u>2,691</u>	<u>2,677</u>
<u>Classes for Adults</u>		
Concurrently Enrolled	4	4
Not concurrently Enrolled	<u>178</u>	<u>176</u>
Totals	<u>8,924</u>	<u>8,900</u>
		Hours of Attendance
<u>Summer School</u>		
Elementary		58,561
High School		<u>51,202</u>
Totals		<u>109,763</u>

SEE NOTES TO SUPPLEMENTARY INFORMATION

MORGAN HILL UNIFIED SCHOOL DISTRICT  
 SCHEDULE OF INSTRUCTIONAL TIME OFFERED  
 FOR THE FISCAL YEAR ENDED JUNE 30, 1999

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<u>Grade Level</u>	<u>1986-87 Minutes Requirement</u>	<u>1982-83 Actual Minutes</u>	<u>1998-99 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	64,808	In Compliance
Grade 10 to 12	64,800	60,849	64,918	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, 1999

<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	\$ 510,478
Especially Needy Breakfast	10.553	180,858
Basic School Breakfast	10.553	29,144
US Department of Education:		
Passed through CDE:		
IASA - Title I	84.010	329,763
IASA - Title VI	84.151	40,040
Special Education		
Special Education PL101-476	84.027	5,124
Preschool Expansion	84.173	48,563
Preschool Staff Development	84.173	312
Special Education	84.027	472,142
Vocational Education		
Vocational Education Act	84.048	26,507
Teen Parent	84.048	14,697
EESA PL 98-377	84.168	23,901
Drug Free Schools and Communities Act of 1986	84.186	52,651
Goals 2000	84.276	162,462
Adult Education		
Job Training partnership Act	17.250	152,416
Adult Basic Education	84.002	4,020
Migrant Education	84.011	81,919
Migrant Summer School	84.011	33,193
Even Start	84.213	3,380
Total Federal Programs		<u>\$ 2,171,570</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, 1999

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	<u>General Fund</u>
June 30, 1999 Annual Financial and Budget Report (J-200) Fund Balance	<u>\$4,712,297</u>
Adjustments and Reclassifications:	
Increase (Decrease) in Fund Balance:	
Overstatement of Other State Revenue	(4,645)
Understatement of Federal Revenue	<u>23,138</u>
Net Adjustments and Reclassifications	<u>18,493</u>
June 30, 1999, Audited Financial Statement General Fund Balance	<u><u>\$4,730,790</u></u>
	 <u>General Long-Term Debt Account Group</u>
June 30, 1999 Annual Financial and Budget Report (J-249) Total Liabilities	<u>\$8,765,000</u>
Adjustments and Reclassifications:	
Increase (Decrease) in Total Liabilities:	
Understatement of Capital Leases Obligations	164,417
Understatement of Compensated Absences	<u>198,868</u>
Net Adjustments and Reclassifications	<u>363,285</u>
June 30, 1999, Audited Financial Statement General Long-Term Debt Total Liabilities	<u><u>\$9,128,285</u></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, 1999.

The Mello Roos Fund is classified as a capital projects fund in the audit report. However, it was reported as an agency fund on Form J-245.

SEE NOTES TO SUPPLEMENTARY INFORMATION

MORGAN HILL UNIFIED SCHOOL DISTRICT  
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999

	(Budget) 1999-2000	1998-99	1997-98	1996-97
<u>General Fund</u>				
Revenues and Other Financial Sources	\$ 47,342,808	\$ 48,629,812	\$ 44,855,899	\$ 41,915,462
Expenditures	46,538,515	47,631,286	43,928,680	41,793,280
Other Uses and Transfers Out	135,000	249,137	346,607	115,796
Total Outgo	46,673,515	47,880,423	44,275,287	41,909,076
Change in Fund Balance	669,293	749,389	580,612	6,386
Ending Fund Balance	\$ 5,400,083	\$ 4,730,790	\$ 3,981,401	\$ 3,400,789
Available Reserves	\$ 2,975,286	\$ 2,199,940	\$ 2,496,839	\$ 2,593,196
Designated for Economic Uncertainties	\$ 1,400,205	\$ 1,502,369	\$ 1,330,167	\$ 1,262,537
Undesignated Fund Balance	\$ 1,575,081	\$ 697,571	\$ 1,166,672	\$ 1,330,659
Available reserves as a percentage of total outgo	6.4%	4.6%	5.6%	6.2%
Total long-term debt	\$ 4,982,024	\$ 9,128,285	\$ 13,848,556	\$ 17,508,546
Average daily attendance at P-2	8,881	8,742	9,149	8,983

Available reserves includes General Fund designated for economic uncertainty and General Fund unrestricted, undesignated fund balance. The general fund balance has increased by \$1,336,387 over the past three years. The fiscal year 1999-2000 budget projects an increase of \$669,293 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 \$11,860,150 over the past three years.

SEE NOTES TO SUPPLEMENTARY INFORMATION

MORGAN HILL UNIFIED SCHOOL DISTRICT  
NOTES TO SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 1999

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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.





GOODELL,  
PORTER &  
FREDERICKS, LLP

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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, 1999, and have issued our report thereon dated December 1, 1999. 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	4	Yes
Staff development days:		
With waiver	3	Yes
Combination with waiver	3	Not Applicable
Without waiver	3	Not Applicable

<u>Description</u>	<u>Procedures in Controller's Audit Guide</u>	<u>Procedures Performed</u>
Kindergarten Enrollment	4	Yes
Independent Study	13	Yes
Continuation Education	13	Yes
Adult education	8	Yes
Regional Occupational Center/Programs	5	Not Applicable
County Office of Education Programs	9	Not Applicable
Incentive for Longer Instructional Day:		
School Districts	3	Yes
County Offices of Education	3	Not Applicable
GANN Limit Calculation	2	Yes
Early Retirement Incentive Program	5	Not Applicable
Community Day Schools	8	Not Applicable
Class Size Reduction program:		
Option One Classes	12	Yes
Option Two Classes	11	Not Applicable
Option One and Two Classes	17	Not Applicable
Reduce Class Size in Two Courses in Grade 9	8	Yes
State Instructional Material Fund	8	Yes
Office of Criminal Justice Planning	-	Not Applicable

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. 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.

*Goode, Porter & Fredericks, LLP*  
GOODELL, PORTER & FREDERICKS, LLP  
Certified Public Accountants

December 1, 1999

GOODELL,  
PORTER &  
FREDERICKS, LLP

CERTIFIED  
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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, 1999, and have issued our report thereon dated December 1, 1999. 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 no instances of noncompliance that are required to be reported under *Government Auditing Standard*.

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  
Certified Public Accountants

December 1, 1999

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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, 1999. 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.

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, 1999.

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  
Certified Public Accountants

December 1, 1999

## FINDINGS AND RECOMMENDATIONS SECTION





MORGAN HILL UNIFIED SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 1999

---

**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 Unqualified

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	IASA - Title I
84.027	Special Education

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: Unqualified

MORGAN HILL UNIFIED SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 1999

---

**Section II - Financial Statements Findings**

**99-1- 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: Each of the fifteen disbursements tested from the student body account of Live Oak High School and twelve of fourteen disbursements tested from the student body account of Britton Middle School were not approved by the three designated persons in the student body organization.

Effect: Without prior approval by three designated person, unauthorized disbursements may be made from student body accounts and not be detected.

Recommendations: No disbursements should be made from student body accounts without prior approval from the three designated persons.

District Response: The management teams at Live Oak High School and Britton Middle School have implemented a process that will require the student representative to approve all expenditures prior to the issuance of a check. Copies of California Department of Education and CASBO manuals have previously been made available to all school sites.

If acceptable guidelines are not followed, the ASB accounts will be transferred to the District office for handling.

**99-2 – STUDENT BODY ACCOUNTS – #30000**

Finding: During our audit of student body accounts at Live Oak High School, we noted nine club accounts with deficit balances.

Effect: Allowing groups to operate with a deficit account balance, permits those groups to encroach on funds belonging to other groups.

Recommendation: We recommend that procedures be developed and followed which prevent student groups from exceeding available resources and encroaching on other groups.

District Response: Associated Student accounts are comprised of Club/Team, Class and Scholarship accounts. The Club/Team accounts will be frozen until resources become available.

Each ASB account will develop budget and funds appropriated and will be monitored to ensure compliance. The ASB account cannot exceed this budget without prior approval from the designated supervising adult and any increases will be reflected in their minutes.

If acceptable guidelines are not followed, the ASB accounts will be transferred to the District office for handling.

MORGAN HILL UNIFIED SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 1999

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**Section II - Financial Statements Findings (Continued)**

**99-3 – STUDENT BODY BANK RECONCILIATION – #30000**

Finding: During our audit of the student body accounts at Britton Middle School, we noted that bank reconciliations were not performed on a monthly basis. In addition, student body personnel lacked understanding of the computer software used for student body activity; therefore, a current and accurate check register was not available.

Effect: If the reconciled balance does not agree with the check register balance, errors may have occur and not be detected.

Recommendation: In order to strengthen internal controls, we recommend that the student body personnel receive training in using the student body accounting software program.

District Response: Britton Middle School will implement procedures that will require ASB staff to gain more knowledge of student body accounts. We will request that a copy of the monthly bank statement be submitted to the District office each month to allow us to monitor the timeliness of the statement reconciliations.

If acceptable guidelines are not followed, the ASB accounts will be transferred to the District office for handling.

**99-4 –STUDENT BODY CASH RECEIPTS - SEGREGATION OF DUTIES – #30000**

Specific Requirement That Was Not Complied With: Sound accounting practices require receipts to student body accounts to have supporting documentation.

Finding: During our testing of ticket control and cash management at Britton Middle School, we noted the student body director reconciles cash and also prepares the deposits for the bank. In addition, ticket control logs are not used.

Effect: Inadequate segregation of duties increases the risk of employee misappropriation of district assets. Furthermore, not reconciling cash collected to ticket control logs make it impossible to determine if all cash is received and properly accounted for.

Recommendation: We recommend separating the responsibilities of receipting cash, preparing deposits, and maintaining accounting records. In addition, the school should begin using ticket control logs that monitor the first and last ticket number sold at an event. There should also be a cash reconciliation sheet which has beginning and ending ticket numbers and also shows the cash collected reconciled to the number of tickets sold. The reconciliation should be signed by the individual collecting the cash.

District Response: Due to staffing shortages at Britton, a division of responsibilities was difficult to maintain. Procedures will be implemented to ensure a segregation of duties which will be monitored by the school site coordinator and the school sites budget clerk.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 1999

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**Section II - Financial Statements Findings (Continued)**

99-5 – STUDENT BODY ACCOUNTS – #30000

Finding: During our testing of the student body accounts at Britton Middle School, we noted expenses were incurred for instructional supplies which were reimbursed by the general fund and charged to the State School Improvement Program.

Recommendation: We recommend purchases of instructional materials not flow through the student body accounts at any school site. All expenditures for instructional supplies should be recorded in the general fund program account and charged to the appropriate site.

District Response: We have reminded staff that expenditures made from restricted funds need to be handled in the proper manner. The use of ASB accounts is for ASB related expenses. Requisitions will be submitted and a purchase order issued for all instructional materials expenditures. We will review all payments made to reimburse all Associated Student Body accounts.

99-6 – 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.

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

Recommendation: Bank reconciliations should be prepared on a monthly basis, including a reconciliation of the bank account balance back to the authorized balance each time the account is reimbursed by a County Treasury warrant.

District Response: We had implemented changes in job responsibilities to facilitate the reconciliation of all bank statements in a timely manner. We did not anticipate a staff shortage for such an extended period of time. This placed a strain on staff to modify their priorities to ensure that reports were completed on time.

MORGAN HILL UNIFIED SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 1999

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**Section II - Financial Statements Findings (Concluded)**

**99-7 – CLEARING ACCOUNTS - #30000**

Specific Requirement That Was Not Complied With: Sound accounting practices require District bank accounts to be reconciled on a monthly basis.

Finding: During our audit of the District's clearing accounts, we noted the Health and Welfare clearing accounts maintained by the Personnel Department were not being reconciled properly.

Effect: Without proper monthly reconciliations, errors may occur and not be detected in a timely manner.

Recommendation: All clearing accounts utilized by the District should be reconciled on a monthly basis to identify potential discrepancies in a timely manner.

District Response: The health and welfare accounts reflect the monthly accruals posted by the Santa Clara Office of Education. During the 1998-99 school year, the lack of staff made it extremely difficult to review the accruals and still make payments in a timely manner. We have hired a part-time staff whose sole responsibility is to reconcile the insurance bills and the county reports. Funding for this position was appropriated as part of our Performance Driven Budget process.

**Section III - Federal Award Findings and Questioned Costs**

No matters are reported

**Section IV - State Award Findings and Questioned Costs**

No matters are reported

MORGAN HILL UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

JUNE 30, 1999

<u>Findings/Recommendations</u>	<u>Current Status</u>	<u>Explanation if Not Fully Implemented</u>
<b>Financial Statement Findings</b>		
<u>98-1 – COUNTY OFFICE POSTING – 30000</u>		
Backup should be obtained and retained for all postings made by the county office not initiated by the district.	Accepted Implemented	
<u>98-2 - PURCHASE ORDER APPROVAL – 30000</u>		
The purchasing signature stamp should be placed in a secure location such as a locked cabinet.	Accepted Implemented	
<u>98-3 – STUDENT BODY DISBURSEMENTS – 30000</u>		
No disbursements should be made from student body accounts without prior approval from an authorized student representative.	Accepted Not Implemented	See Repeat Finding At 99-1
<u>98-4 – REVOLVING CASH – 30000</u>		
Bank reconciliations should be prepared on a monthly basis, including a reconciliation of the bank account balances back to the authorized balance.	Accepted Not Implemented	See Repeat Finding At 99-6

MORGAN HILL UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

JUNE 30, 1999

<u>Findings/Recommendations</u>	<u>Current Status</u>	<u>Explanation if Not Fully Implemented</u>
<b>Financial Statement Findings (Concluded)</b>		
<u>98-5 – EXPENDITURE</u> <u>ACCOUNT CODING – 30000</u>		
A designated employee should review account coding to ensure accurate financial reporting.	Accepted Implemented	
<u>98-6 – MARTIN MURPHY</u> <u>MIDDLE SCHOOL STUDENT</u> <u>BODY – 30000</u>		
The student body accounting should be converted to a computerized software package.	Accepted Not Implemented	Records will be converted as time and resources allow. Comment Not Repeated
<b>Federal Award Findings and Questioned Costs</b>		
<u>98-7 - IASA, Title I - 50000</u>		
Each multi-funded employee should complete a timesheet which includes the amount of time worked in each program.	Accepted Implemented	
<b>State Award Findings and Questioned Costs</b>		
<u>98-8 - PHONE LOG –</u> <u>CENTRAL HIGH SCHOOL –</u> <u>10000</u>		
The District should maintain documentation to verify the characterization of student absences.	Accepted Implemented	

MORGAN HILL UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

JUNE 30, 1999

<u>Findings/Recommendations</u>	<u>Current Status</u>	<u>Explanation if Not Fully Implemented</u>
<b>State Award Findings and Questioned Costs (Continued)</b>		
<u>98-9 - STATE INSTRUCTIONAL MATERIALS – PUBLIC HEARING – 40000</u>		
The Education Code requires the District to 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.	Accepted Implemented	
<u>98-10 - ATTENDANCE - INDEPENDENT STUDY – 10000</u>		
The District should 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).	Accepted Implemented	



MORGAN HILL UNIFIED SCHOOL DISTRICT  
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

JUNE 30, 1999

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<u>Findings/Recommendations</u>	<u>Current Status</u>	<u>Explanation if Not Fully Implemented</u>
<b>State Award Findings and Questioned Costs (Concluded)</b>		
<u>98-11 – ATTENDANCE - CONCURRENT ENROLLMENT – 10000</u>		
The District should obtain letters for those students attending college classes while enrolled at the high school and should retain those letters to ensure apportionment credit is not being claimed by both educational agencies.	Accepted Implemented	

