

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

AUDIT REPORT

JUNE 30, 2001

MORGAN HILL UNIFIED SCHOOL DISTRICT

JUNE 30, 2001

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	25
Combining Statement of Revenues, Expenditures and Changes in Fund Balance	26
Combining Statement of Revenues, Expenditures and Changes in Fund Balances-budget and actual	27
Debt Service Funds	
Combining Balance Sheet	33
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	34
Combining Statement of Revenues, Expenditures and Changes in Fund Balances-budget to actual	35

MORGAN HILL UNIFIED SCHOOL DISTRICT

JUNE 30, 2001

TABLE OF CONTENTS

	<u>Page</u>
<u>FINANCIAL SECTION</u>	
Capital Projects Funds	
Combining Balance Sheet	37
Combining Statement of Revenues, Expenditures and changes in Fund Balances	38
Combining Statement of Revenues, Expenditures and Changes in Fund Balances-Budget and Actual	39
Agency Fund	
Combining Balance Sheet – Trust and Agency Funds	45
<u>SUPPLEMENTARY INFORMATION SECTION</u>	
Independent Auditor's Report on Supplementary Information	47
Organization	48
Schedule of Average Daily Attendance	49
Schedule of Instructional Time	50
Schedule of Expenditures of Federal Awards	51
Reconciliation of Annual Financial and Budgeted Report (J-200 With Audited Financial Statements)	52
Schedule of Financial Trends and Analysis	53
Notes to Supplementary Information	54

MORGAN HILL UNIFIED SCHOOL DISTRICT

JUNE 30, 2001

TABLE OF CONTENTS

	<u>Page</u>
<u>SUPPLEMENTARY INFORMATION SECTION</u>	
Independent Auditor's Report on State Compliance	55
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	57
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	59
<u>FINDINGS AND RECOMMENDATIONS SECTION</u>	
Schedule of Findings and Questioned Costs	61
Status of Prior Year Findings and Recommendations	65

FINANCIAL SECTION

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 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, 2001, 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 U.S. 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 U.S. generally accepted accounting principles. The amount that should be recorded in the general fixed assets account group is not known.

In our opinion, except for any adjustments, if any, as might have been determined to be necessary had we been able to examine sufficient evidence regarding the Student Body revenues, and except for the effect on the financial statements of the omission of the general fixed asset account group, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Morgan Hill Unified School District at June 30, 2001, and the results of its operations for the year then ended, in conformity with U.S. 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, 2001, and the results of operations of such funds for the year then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 26, 2001 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



GOODELL, PORTER & FREDERICKS, LLP
Certified Public Accountants

October 26, 2001

MORGAN HILL UNIFIED SCHOOL DISTRICT
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2001

	Governmental Fund Types		
	General	Special Revenue	Debt Service
<u>ASSETS</u>			
Cash in County Treasury (Note 2)	\$ 4,634,296	\$ 2,712,208	\$ 3,288,235
Cash on Hand and in Bank	360,230	6,449	
Cash in Revolving Fund	14,500	6,000	
Investments		258,589	
Accounts Receivable (Note 4)			
Federal Government	279,948	197,370	
State Governments	1,150,532	261,259	
Local Governments	855,281		
Interest	348,442	34,098	2,719
Miscellaneous	27,471	19,099	
Due from Other Funds (Note 5)	579,927	14,713	
Stores Inventory (Note 1G)	193,816	21,716	
Prepaid Expenditures	6,741		
Amount Available in Debt Service			
Amount to be Provided for:			
Retirement of General Long-Term Debt			
 Total Assets	 \$ 8,451,184	 \$ 3,531,501	 \$ 3,290,954
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts Payable	\$ 2,532,086	\$ 270,761	
Due to Other Funds (Note 5)	18,227	436,962	\$ 2
Deferred Income (Note 1L)	1,024,680	79,331	
Due to Student Groups			
General Obligation Bonds Payable (Note 6)			
Compensated Absences (Note 1H)			
Certificates of Participation			
Capital Lease Obligations (Note 7)			
 Total Liabilities	 3,574,993	 787,054	 2
Fund Balances (Note 1I)			
Legally Restricted	1,411,130		
Reserved	342,496	74,799	
Unreserved:			
Designated Fund Balances	2,681,681	177,834	3,290,952
Undesignated Fund Balances	440,884	2,491,814	
 Total Fund Balance	 4,876,191	 2,744,447	 3,290,952
 Total Liabilities and Fund Balance	 \$ 8,451,184	 \$ 3,531,501	 \$ 3,290,954

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

	Fiduciary Fund Type	Account Group General Long-Term Debt	Totals (Memorandum Only)	
Capital Projects	Trust and Agency		June 30	
			2001	2000
\$ 39,911,413	\$ 288,904		\$ 50,546,152	\$ 18,872,150
			655,583	333,251
			20,500	20,500
			258,589	2,605,677
			477,318	759,382
			1,411,791	1,018,392
			855,281	858,449
566,717			951,976	507,528
20,961			67,531	100,166
1,026,827			1,621,467	279,342
			215,532	246,819
1,767			8,508	13,654
		\$ 3,290,952	3,290,952	5,046,359
		35,030,090	35,030,090	
<u>\$ 41,527,685</u>	<u>\$ 288,904</u>	<u>\$ 38,321,042</u>	<u>\$ 95,411,270</u>	<u>\$ 30,661,669</u>
\$ 170,680			\$ 2,973,527	\$ 2,837,443
1,166,276			1,621,467	279,342
	\$ 279,416		1,104,011	1,048,097
		\$ 38,000,000	279,416	52,091
		288,371	38,000,000	227,000
		32,671	288,371	4,660,000
			32,671	159,359
<u>1,336,956</u>	<u>279,416</u>	<u>38,321,042</u>	<u>44,299,463</u>	<u>9,263,332</u>
			1,411,130	1,216,565
			417,295	280,973
			6,150,467	8,400,295
<u>40,190,729</u>	<u>9,488</u>		<u>43,132,915</u>	<u>11,500,504</u>
<u>40,190,729</u>	<u>9,488</u>	<u>0</u>	<u>51,111,807</u>	<u>21,398,337</u>
<u>\$ 41,527,685</u>	<u>\$ 288,904</u>	<u>\$ 38,321,042</u>	<u>\$ 95,411,270</u>	<u>\$ 30,661,669</u>

MORGAN HILL UNIFIED SCHOOL DISTRICT
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	Governmental Fund Types		
	General	Special Revenue	Debt Service
REVENUES			
Revenue Limit Sources:			
State Apportionments	\$ 6,416,292	\$ 361,447	
Local Sources	32,674,545		
Total Revenue Limit	39,090,837	361,447	
Federal Revenue	1,634,667	805,138	
Other State Revenue	9,991,147	775,375	\$ 28,965
Other Local Revenue	4,230,296	1,452,614	2,526,751
Total Revenues	54,946,947	3,394,574	2,555,716
EXPENDITURES			
Certificated Salaries	30,525,619	334,362	
Classified Salaries	8,216,944	657,785	
Employee Benefits	7,227,494	216,581	
Books and Supplies	2,541,978	1,042,379	
Services and Other			
Operating Expenditures	4,374,345	497,822	
Capital Outlay	941,242	381,095	
Debt Service:			
Principal Retirement	126,688		4,660,000
Interest and Fiscal Charges	4,368		1,144,585
Other Outgo	839,982	194,113	
Total Expenditures	54,798,660	3,324,137	5,804,585
Excess of Revenues Over (Under) Expenditures	148,287	70,437	(3,248,869)
Other Financing Sources (Uses):			
Operating Transfers In	175,912	21,068	2,390,229
Operating Transfers Out	(20,850)	(111,854)	(2,390,229)
Other Sources	139,425		
Other Uses			(9,590)
Total Other Financing Sources (Uses)	294,487	(90,786)	(9,590)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	442,774	(20,349)	(3,258,459)
Fund Balances - July 1, 2000	4,433,417	2,764,796	6,549,411
Fund Balances - June 30, 2001	\$ 4,876,191	\$ 2,744,447	\$ 3,290,952

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

	Fiduciary Fund Type	Totals (Memorandum Only)	
		June 30	
Capital Projects	Expendable Trust	2001	2000
		\$ 6,777,739	\$ 6,755,163
		32,674,545	29,151,730
		39,452,284	35,906,893
		2,439,805	2,271,984
\$ 551,832		11,347,319	9,261,650
5,424,541	\$ 196	13,634,398	13,820,585
5,976,373	196	66,873,806	61,261,112
83,314		30,943,295	27,014,884
64,241		8,938,970	8,055,855
22,249		7,466,324	6,672,953
3,644	200	3,588,201	3,598,600
276,172		5,148,339	9,732,923
10,564,733		11,887,070	3,026,248
304,000		4,786,688	4,154,315
7,804		1,452,953	368,639
		1,041,899	995,155
11,326,157	200	75,253,739	63,619,572
(5,349,784)	(4)	(8,379,933)	(2,358,460)
594,187		3,181,396	5,022,717
(658,463)		(3,181,396)	(5,022,717)
38,000,000		38,139,425	191,349
(36,432)		(46,022)	(75,969)
37,899,292	0	38,093,403	115,380
32,549,508	(4)	29,713,470	(2,243,080)
7,641,221	9,492	21,398,337	23,641,417
\$ 40,190,729	\$ 9,488	\$ 51,111,807	\$ 21,398,337

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, 2001

	General Fund			Special Revenue Funds		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Revenue Limit Sources:						
State Apportionments	\$ 6,416,292	\$ 6,416,292		\$ 361,447	\$ 361,447	
Local Sources	32,674,545	32,674,545				
Total Revenue Limit	39,090,837	39,090,837		361,447	361,447	
Federal Revenue	1,708,272	1,634,667	\$ (73,605)	810,362	805,138	\$ (5,224)
Other State Revenue	10,644,182	9,991,147	(653,035)	846,884	775,375	(71,509)
Other Local Revenue	4,347,694	4,230,296	(117,398)	1,452,614	1,452,614	
Total Revenues	55,790,985	54,946,947	(844,038)	3,471,307	3,394,574	(76,733)
EXPENDITURES						
Certificated Salaries	30,907,608	30,525,619	381,989	328,405	334,362	(5,957)
Classified Salaries	8,312,286	8,216,944	95,342	680,883	657,785	23,098
Employee Benefits	7,400,709	7,227,494	173,215	261,577	216,581	44,996
Books and Supplies	4,759,139	2,541,978	2,217,161	1,076,122	1,042,379	33,743
Services and Other						
Operating Expenditures	4,732,943	4,374,345	358,598	580,336	497,822	82,514
Capital Outlay	1,014,649	941,242	73,407	1,104,527	381,095	723,432
Debt Service:						
Principal Retirement	126,688	126,688				
Interest and Fiscal Charges	4,368	4,368				
Other Outgo	802,031	839,982	(37,951)	226,320	194,113	32,207
Total Expenditures	58,060,421	54,798,660	3,261,761	4,258,170	3,324,137	934,033
Excess of Revenues Over (Under) Expenditures	(2,269,436)	148,287	2,417,723	(786,863)	70,437	857,300
Other Financing Sources (Uses):						
Operating Transfers In	175,912	175,912		20,850	21,068	218
Operating Transfers Out	(20,850)	(20,850)		(111,854)	(111,854)	
Other Sources	143,035	139,425	(3,610)			
Other Uses						
Total Other Financing Sources (Uses)	298,097	294,487	(3,610)	(91,004)	(90,786)	218
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ (1,971,339)	442,774	\$ 2,414,113	\$ (877,867)	(20,349)	\$ 857,518
Fund Balances - July 1, 2000		4,433,417			2,764,796	
Fund Balances - June 30, 2001		\$ 4,876,191			\$ 2,744,447	

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)
						\$ 6,777,739	\$ 6,777,739	
						32,674,545	32,674,545	
						39,452,284	39,452,284	
						2,518,634	2,439,805	\$ (78,829)
\$ 1,523	\$ 28,965	\$ 27,442	\$ 551,832	\$ 551,832		12,044,421	11,347,319	(697,102)
371,093	2,526,751	2,155,658	6,022,556	5,424,541	\$ (598,015)	12,193,957	13,634,202	1,440,245
372,616	2,555,716	2,183,100	6,574,388	5,976,373	(598,015)	66,209,296	66,873,610	664,314
			92,134	83,314	8,820	31,328,147	30,943,295	384,852
			81,847	64,241	17,606	9,075,016	8,938,970	136,046
			30,123	22,249	7,874	7,692,409	7,466,324	226,085
			3,764	3,644	120	5,839,025	3,588,001	2,251,024
			1,845,688	276,172	1,569,516	7,158,967	5,148,339	2,010,628
			83,068,684	10,564,733	72,503,951	85,187,860	11,887,070	73,300,790
	4,660,000	(4,660,000)				126,688	4,786,688	(4,660,000)
	1,144,585	(1,144,585)	304,000	304,000		308,368	1,452,953	(1,144,585)
			7,979	7,804	175	1,036,330	1,041,899	(5,569)
	5,804,585	(5,804,585)	85,434,219	11,326,157	74,108,062	147,752,810	75,253,539	72,499,271
372,616	(3,248,869)	(3,621,485)	(78,859,831)	(5,349,784)	73,510,047	(81,543,514)	(8,379,929)	73,163,585
	2,390,229	2,390,229	16,636	594,187	577,551	213,398	3,181,396	2,967,998
(2,392,260)	(2,390,229)	2,031	(658,463)	(658,463)		(3,183,427)	(3,181,396)	2,031
			73,381,552	38,000,000	(35,381,552)	73,524,587	38,139,425	(35,385,162)
(9,590)	(9,590)		(36,432)	(36,432)		(46,022)	(46,022)	
(2,401,850)	(9,590)	2,392,260	72,703,293	37,899,292	(34,804,001)	70,508,536	38,093,403	(32,415,133)
\$ (2,029,234)	(3,258,459)	\$ (1,229,225)	\$ (6,156,538)	32,549,508	\$ 38,706,046	\$ (11,034,978)	29,713,474	\$ 40,748,452
	6,549,411			7,641,221			21,388,845	
\$ 3,290,952				\$ 40,190,729			\$ 51,102,319	

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2001

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 U.S. 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 2001. 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 and the Tax Override Fund under the Debt Service fund category.

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2001

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, 2001

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 - 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.
3. Bond Interest and Redemption Fund is used to account for the accumulation of resources for, and the repayment of, district bonds, interest and related costs.

Capital Projects Funds are used to account for the acquisition and/or construction of all major governmental fixed assets. The District maintains five 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.
5. County School Facilities Fund is used to account for the deposit of funds received as part of the School Facilities Act of 1998 for the on-going and major maintenance of building programs under the jurisdiction of the Leroy F. Greene School Facilities Act of 1998.

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2001

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, 2001

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 Fund- COPs and the Bond Interest and Redemption Fund.

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, 2001 was estimated at \$288,371.

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, 2001

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 June 30, 2001 fund balance has been reserved for debit balances in the Payroll Clearing Accounts. These balances represent prepaid expenses and is not available for appropriation at the balance sheet date.

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

Instructional Materials	\$ 1,390,950
Tenth Grade Counseling	10,328
Gifted and Talented	<u>9,852</u>
Total	<u>\$ 1,411,130</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	193,816	21,716		215,532
Reserve for Prepaid Assets	6,741			6,741
Reserved for Payroll Clearing Account Balances	<u>127,439</u>	<u>47,083</u>	<u> </u>	<u>174,522</u>
Total	<u>\$342,496</u>	<u>\$69,799</u>	<u>\$5,000</u>	<u>\$417,295</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, 2001

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

I. Fund Balance Reserves and Designations (Concluded)

The Designated Fund Balance represents the following:

	General Fund	Cafeteria Fund	Adult Education Fund	Tax Override Fund	Corporation Debt Service COPS	Totals
Designated for Economic						
Uncertainties	\$1,640,110	\$ 65,339	\$19,222			\$1,724,671
Special Education Increases	445,000					445,000
Site Carryovers	284,137					284,137
Loss of ADA – Charter School	124,720					124,720
Energy Costs Increase	76,000					76,000
E-Rate Abatement	60,000					60,000
Facilities Expansion			60,000			60,000
Deferred Maintenance	41,714					41,714
Loan Repayment			33,273			33,273
Barret-Textbook Allocation	10,000					10,000
Designated for Debt Service				\$2,159,912	\$1,131,040	3,290,952
Total	<u>\$2,681,681</u>	<u>\$ 65,339</u>	<u>\$112,495</u>	<u>\$2,159,912</u>	<u>\$1,131,040</u>	<u>\$6,150,467</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 U.S. generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

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.

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2001

NOTE 2 – CASH AND INVESTMENTS

Cash at June 30, 2001 consisted of the following:

Deposits:

Cash on Hand and in Banks	\$ 655,583
Cash in Revolving Fund	20,500
Pooled Fund:	
Cash in County Treasury	50,546,152

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

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2001

NOTE 2 – CASH AND INVESTMENTS (CONCLUDED)

Investments at June 30, 2001, 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:

	Category*		Carrying Amount	Market Value
	<u>1</u>	<u>2</u>		
Local Agency Investment Fund	\$ 258,589	\$ 0	\$ 258,589	\$ 258,589

* 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	\$ 37,951
Special Revenue Fund	
Adult Education Fund	
Certificated Salaries	5,957
Other Outgo	141

The District incurred unanticipated certificated salaries expense in the Adult Education Fund and expenditures for PERS reduction from the State Revenue Limit for which the budget was not revised. Total appropriations were not overspent in any district fund.

NOTE 4 – ACCOUNTS RECEIVABLE

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Debt Service Funds</u>	<u>Capital Projects</u>	<u>Totals</u>
Federal Government					
Categorical Aid Programs	\$ 279,948	\$197,370			\$ 477,318
State Government					
Categorical Aid Programs	\$ 243,642	\$ 12,056			\$ 255,698
State Aid		4,203			4,203
Lottery	611,646	-			611,646
Deferred Maintenance	-	245,000			245,000
Other	295,244	-			295,244
Total State	1,150,532	261,259			1,411,791
Local Governments	855,281				855,281
Interest	348,442	34,098	\$ 2,719	\$566,717	951,976
Miscellaneous	27,471	19,099		20,961	67,531
Total	\$2,661,674	\$511,826	\$2,719	\$587,678	\$3,763,897

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2001

NOTE 5 – INTERFUND TRANSACTIONS

Interfund Receivables and Payables

Individual fund interfund receivables and payables balances as of June 30, 2001 are as follows:

	<u>Receivable</u>	<u>Payable</u>
General Fund	\$ 579,927	\$ 18,227
Deferred Maintenance Fund	4,602	572
Cafeteria Fund	89	197,903
Adult Education Fund	10,022	95,811
Child Development Fund		47,676
Tax Override Fund		2
Special Reserve Fund		95,000
Building Fund	982,080	966,078
Capital Facilities Fund	44,747	170,193
Mello Roos Fund		14,005
County School Facilities Fund		16,000
Total	<u>\$1,621,467</u>	<u>\$1,621,467</u>

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, 2001 were as follows:

Transfer from the County School Facilities Fund to the Building Fund	\$ 577,551
Transfer from the General Fund to the Adult Education Fund	20,850
Transfer from the Special Reserve Fund to the General Fund	95,000
Transfer from the Capital Facilities Fund to the General Fund	80,912
Transfer from the Adult Education Fund to the Capital Facilities Fund	16,854
Transfer from the Tax Override Fund to the Corporate Debt Service – COPs Fund	<u>2,390,229</u>
Total Transfers	<u>\$3,181,396</u>

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2001

NOTE 6 – CERTIFICATES OF PARTICIPATION

The Morgan Hill Unified School District General Obligation Bonds, Election of 1999, Series 2000 (the “Series 2000 Bonds”), in the aggregate principal amount of \$38,000,000, were issued by the County of Santa Clara on behalf of the District. The Series 2000 Bonds were authorized at a special election of the registered voters of the District held on June 8, 1999, at which more than two-thirds of the persons voting on the proposition voted to authorize the issuance and sale of not to exceed \$72,500,000 principal amount of general obligation bonds to finance the acquisition and construction of school facilities for the District.

The Series 2000 Bonds are payable solely from ad valorem property taxes levied and collected by the County of Santa Clara. The Board of Supervisors of the County has power and is obligated to annually levy ad valorem taxes for the payment of interest on, and principal of, the Series 2000 bonds upon all property subject to taxation by the District without limitation of rate or amount (except certain personal property which is taxable at limited rates).

The outstanding general obligation bonded debt of the Morgan Hill Unified School District as of June 30, 2001 is:

<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Outstanding July 1, 2000</u>	<u>Issued Current Year</u>	<u>Redeemed Current Year</u>	<u>Outstanding June 30, 2001</u>
2000	4.6%–5.5%	2021	<u>\$38,000,000</u>	<u>\$ 0</u>	<u>\$38,000,000</u>	<u>\$ 0</u>	<u>\$38,000,000</u>

The annual requirements to amortize general obligation bonds payable, outstanding as of June 30, 2001, are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002		\$ 2,030,978	\$ 2,030,978
2003	\$ 175,000	2,026,953	2,201,953
2004	245,000	2,017,293	2,262,293
2005	320,000	2,004,298	2,324,298
2006	395,000	1,987,853	2,382,853
Thereafter	<u>36,865,000</u>	<u>26,600,599</u>	<u>63,465,599</u>
Totals	<u>\$38,000,000</u>	<u>\$36,667,974</u>	<u>\$74,667,974</u>

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2001

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>
2002	\$ 16,125
2003	10,863
2004	10,863
2005	<u>1,147</u>
Total	38,998
Less portion representing interest	<u>(6,327)</u>
Present value of net minimum lease payments	<u>\$ 32,671</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, 2001 is shown below:

	<u>Balance</u> <u>July 1, 2000</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2001</u>
General Obligation Bonds (Note 6)	\$ 0	\$38,000,000		\$38,000,000
Certificates of Participation	4,660,000	-	\$4,660,000	0
Capital Lease Obligations (Note 7)	159,359		126,688	32,671
Compensated Absences (Note 1H)	<u>227,000</u>	<u>61,371</u>	<u></u>	<u>288,371</u>
Totals	<u>\$ 5,046,359</u>	<u>\$38,061,371</u>	<u>\$4,786,688</u>	<u>\$38,321,042</u>

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).

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2001

NOTE 9 – EMPLOYEE RETIREMENT SYSTEMS (CONTINUED)

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 2000-2001 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, 2001, 2000, and 1999 were \$2,425,829, \$2,089,446 and \$2,189,302, 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, 2001

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 2000-2001 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, 2001, 2000 and 1999 were \$467,699, \$398,629 and \$0, 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.

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.

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2001

NOTE 12 – JOINT VENTURES (CONCLUDED)

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.

Unaudited condensed financial information for the year ended June 30, 2001 is as follows:

Total assets	\$24,488,905
Total liabilities	<u>9,790,651</u>
Fund balance	<u>\$14,698,254</u>
Total revenues	\$19,247,078
Total expenditures	<u>17,601,607</u>
Net increase in fund balance	<u>\$ 1,645,471</u>

The JPA did not have long-term debt outstanding at June 30, 2001. The District's share of year-end assets, liabilities, or accumulated deficit has not been calculated.

Due to an error in the Experience Modification calculations prepared for the School's Insurance Group for the 1999-2000 fiscal year, some member districts are overpaying their premiums while other member districts are underpaying their premiums. During 1999-2000, it was determined the Morgan Hill Unified District was under-assessed approximately \$84,910. Upon receipt of the final assessment amount, the District will make-up the underpayment over a five-year period. No provision has been made in these financial statements for this obligation. District payments to the JPA during fiscal year 2000-2001 were \$975,618.

NOTE 13 – SUBSEQUENT EVENTS

Tax Revenue Anticipation Notes

On July 3, 2001, the District issued \$7,690,000 in tax revenue anticipation notes at a premium of \$93,434. The notes mature on July 3, 2002 and bear interest at 2.65%. 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, 2001

	Deferred Maintenance	Cafeteria	Adult Education	Child Development	Special Reserve	Totals
ASSETS						
Cash in County Treasury	\$ 979,248	\$ 370,022	\$ 319,722	\$ 182,790	\$ 860,426	\$ 2,712,208
Cash on Hand and in Bank		6,215	234			6,449
Cash in Revolving Fund		1,000	5,000			6,000
Investments		258,589				258,589
Accounts Receivable						
Federal Government		117,794	60,567	19,009		197,370
State Government	245,000	12,056	4,203			261,259
Interest	13,815	4,612	4,082		11,589	34,098
Miscellaneous	7,037	12,062				19,099
Due from Other Funds	4,602	89	10,022			14,713
Stores Inventory		21,716				21,716
Total Assets	<u>\$ 1,249,702</u>	<u>\$ 804,155</u>	<u>\$ 403,830</u>	<u>\$ 201,799</u>	<u>\$ 872,015</u>	<u>\$ 3,531,501</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts Payable		\$ 62,668	\$ 53,970	\$ 154,123		\$ 270,761
Due to Other Funds	\$ 572	197,903	95,811	47,676	\$ 95,000	436,962
Deferred Income			79,331			79,331
Total Liabilities	<u>572</u>	<u>260,571</u>	<u>229,112</u>	<u>201,799</u>	<u>95,000</u>	<u>787,054</u>
Fund Balances:						
Reserved		69,799	5,000			74,799
Unreserved						
Designated		65,339	112,495			177,834
Undesignated	1,249,130	408,446	57,223		777,015	2,491,814
Total Fund Balances	<u>1,249,130</u>	<u>543,584</u>	<u>174,718</u>	<u>0</u>	<u>777,015</u>	<u>2,744,447</u>
Total Liabilities and Fund Balances	<u>\$ 1,249,702</u>	<u>\$ 804,155</u>	<u>\$ 403,830</u>	<u>\$ 201,799</u>	<u>\$ 872,015</u>	<u>\$ 3,531,501</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS
25

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, 2001

	Deferred Maintenance	Cafeteria	Adult Education	Child Development	Special Reserve	Totals
REVENUES						
Revenue Limit Sources:						
State Apportionment			\$ 361,447			\$ 361,447
Federal Sources:						
Child Nutrition Program		\$ 676,878				676,878
Other			128,260			128,260
Other State Sources:						
State Nutrition Program		45,878				45,878
Other	\$ 237,707		55,625	\$ 436,165		729,497
Other Local Sources:						
Food Service Sales		1,185,003				1,185,003
Interest	55,311	36,717	13,929	8,813	\$ 50,858	165,628
Taxes						
Other			101,983			101,983
Total Revenues	293,018	1,944,476	661,244	444,978	50,858	3,394,574
EXPENDITURES						
Certificated Salaries			334,362			334,362
Classified Salaries	3,490	549,925	104,370			657,785
Employee Benefits	638	151,075	64,868			216,581
Books and Supplies	285	992,785	47,119	2,190		1,042,379
Services and Other						
Operating Expenditures		40,804	35,837	421,181		497,822
Capital Outlay	72,460	308,635				381,095
Other Outgo	454	134,738	37,314	21,607		194,113
Total Expenditures	77,327	2,177,962	623,870	444,978	0	3,324,137
Excess of Revenues Over (Under) Expenditures	215,691	(233,486)	37,374	0	50,858	70,437
Other Financing Sources (Uses):						
Operating Transfers In			21,068			21,068
Operating Transfers Out			(16,854)		(95,000)	(111,854)
Total Other Financing Sources (Uses)	0	0	4,214	0	(95,000)	(90,786)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	215,691	(233,486)	41,588	0	(44,142)	(20,349)
Fund Balances - July 1, 2000	1,033,439	777,070	133,130	0	821,157	2,764,796
Fund Balances - June 30, 2001	\$ 1,249,130	\$ 543,584	\$ 174,718	\$ 0	\$ 777,015	\$ 2,744,447

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, 2001

	DEFERRED MAINTENANCE		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Other State Revenue	\$ 237,707	\$ 237,707	
Interest Income	55,311	55,311	
Total Revenues	293,018	293,018	
EXPENDITURES			
Classified Salaries	3,490	3,490	
Employee Benefits	680	638	\$ 42
Books and Supplies	285	285	
Capital Outlay	783,341	72,460	710,881
Other Outgo	454	454	
Total Expenditures	788,250	77,327	710,923
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ (495,232)	215,691	\$ 710,923
Fund Balance - July 1, 2000		1,033,439	
Fund Balance - June 30, 2001		\$ 1,249,130	

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, 2001

	CAFETERIA		Variance Favorable (Unfavorable)
	Budget	Actual	
REVENUES			
Federal Revenue	\$ 676,878	\$ 676,878	
Other State Revenue	45,878	45,878	
Other Local Revenue	1,185,003	1,185,003	
Interest Income	36,717	36,717	
Total Revenues	1,944,476	1,944,476	
EXPENDITURES			
Classified Salaries	567,532	549,925	\$ 17,607
Employee Benefits	185,174	151,075	34,099
Books and Supplies	1,017,072	992,785	24,287
Services and Other			
Operating Expenditures	44,867	40,804	4,063
Capital Outlay	308,700	308,635	65
Other Outgo	163,827	134,738	29,089
Total Expenditures	2,287,172	2,177,962	109,210
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ (342,696)	(233,486)	\$ 109,210
Fund Balance - July 1, 2000		777,070	
Fund Balance - June 30, 2001		\$ 543,584	

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, 2001

	ADULT EDUCATION		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Revenue Limit Sources:			
State Apportionments	\$ 361,447	\$ 361,447	
Federal Revenue	133,484	128,260	\$ (5,224)
Other State Revenue	60,345	55,625	(4,720)
Other Local Revenue	101,983	101,983	
Interest Income	13,929	13,929	
Total Revenues	671,188	661,244	(9,944)
EXPENDITURES			
Certificated Salaries	328,405	334,362	(5,957)
Classified Salaries	109,861	104,370	5,491
Employee Benefits	75,723	64,868	10,855
Books and Supplies	56,575	47,119	9,456
Services and Other			
Operating Expenditures	50,758	35,837	14,921
Capital Outlay	12,486		12,486
Other Outgo	37,173	37,314	(141)
Total Expenditures	670,981	623,870	47,111
Excess of Revenues Over (Under) Expenditures	207	37,374	37,167
Other Financing Sources (Uses):			
Operating Transfers In	20,850	21,068	218
Operating Transfers Out	(16,854)	(16,854)	
Total Other Financing Sources (Uses)	3,996	4,214	218
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 4,203	41,588	\$ 37,385
Fund Balance - July 1, 2000		133,130	
Fund Balance - June 30, 2001		\$ 174,718	

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, 2001

	CHILD DEVELOPMENT		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Other State Revenue	\$ 502,954	\$ 436,165	\$ (66,789)
Interest Income	8,813	8,813	
Total Revenues	511,767	444,978	(66,789)
EXPENDITURES			
Books and Supplies	2,190	2,190	
Services and Other			
Operating Expenditures	484,711	421,181	63,530
Other Outgo	24,866	21,607	3,259
Total Expenditures	511,767	444,978	66,789
Excess of Revenues Over (Under) Expenditures	\$ 0	0	\$ 0
Fund Balance - July 1, 2000		0	
Fund Balance - June 30, 2001		\$ 0	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

MORGAN HILL UNIFIED SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 SPECIAL REVENUE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	SPECIAL RESERVE		
	Budget	Actual	Variance Favorable (Unfavorable)
<u>REVENUES</u>			
Interest Income	\$ 50,858	\$ 50,858	\$ 0
Other Financing Sources (Uses):			
Operating Transfers Out	(95,000)	(95,000)	0
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>\$ (44,142)</u>	<u>(44,142)</u>	<u>\$ 0</u>
Fund Balance - July 1, 2000		<u>821,157</u>	
Fund Balance - June 30, 2001		<u>\$ 777,015</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, 2001

	TOTAL SPECIAL REVENUE FUNDS		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Revenue Limit Sources:			
State Apportionments	\$ 361,447	\$ 361,447	
Federal Revenue	810,362	805,138	\$ (5,224)
Other State Revenue	846,884	775,375	(71,509)
Other Local Revenue	1,286,986	1,286,986	
Interest Income	165,628	165,628	
Total Revenues	3,471,307	3,394,574	(76,733)
EXPENDITURES			
Certificated Salaries	328,405	334,362	(5,957)
Classified Salaries	680,883	657,785	23,098
Employee Benefits	261,577	216,581	44,996
Books and Supplies	1,076,122	1,042,379	33,743
Services and Other Operating Expenditures	580,336	497,822	82,514
Capital Outlay	1,104,527	381,095	723,432
Other Outgo	226,320	194,113	32,207
Total Expenditures	4,258,170	3,324,137	934,033
Excess of Revenues Over (Under) Expenditures	(786,863)	70,437	857,300
Other Financing Sources (Uses):			
Operating Transfers In	20,850	21,068	218
Operating Transfers Out	(111,854)	(111,854)	
Total Other Financing Sources (Uses)	(91,004)	(90,786)	218
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>\$ (877,867)</u>	(20,349)	<u>\$ 857,518</u>
Fund Balance - July 1, 2000		2,764,796	
Fund Balance - June 30, 2001		<u>\$ 2,744,447</u>	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

MORGAN HILL UNIFIED SCHOOL DISTRICT
COMBINING BALANCE SHEET
DEBT SERVICE FUNDS
JUNE 30, 2001

	<u>Tax Override</u>	<u>Bond Interest and Redemption</u>	<u>Totals</u>
<u>ASSETS</u>			
Cash in County Treasury	\$ 2,159,914	\$ 1,128,321	\$ 3,288,235
Accounts Receivable			
Interest		2,719	2,719
Total Assets	<u>\$ 2,159,914</u>	<u>\$ 1,131,040</u>	<u>\$ 3,290,954</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Due to Other Funds	\$ 2		\$ 2
Fund Balances:			
Unreserved			
Designated	<u>2,159,912</u>	<u>\$ 1,131,040</u>	<u>3,290,952</u>
Total Liabilities and Fund Balances	<u>\$ 2,159,914</u>	<u>\$ 1,131,040</u>	<u>\$ 3,290,954</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, 2001

	Tax Override	Bond Interest and Redemption	COPS	Totals
<u>REVENUES</u>				
Other State Sources:				
Other	\$ 1,523	\$ 27,442		\$ 28,965
Local Sources:				
Interest		88,123	\$ 35,518	123,641
Other	371,091	2,032,019		2,403,110
Total Revenues	372,614	2,147,584	35,518	2,555,716
<u>EXPENDITURES</u>				
Debt Service:				
Principal Retirement			4,660,000	4,660,000
Interest and Fiscal Charges		1,016,544	128,041	1,144,585
Total Expenditures	0	1,016,544	4,788,041	5,804,585
Excess of Revenues Over (Under) Expenditures	372,614	1,131,040	(4,752,523)	(3,248,869)
Other Financing Sources (Uses):				
Operating Transfers In			2,390,229	2,390,229
Operating Transfers Out	(2,390,229)			(2,390,229)
Other Uses	(9,590)			(9,590)
Total Other Financing Sources (Uses):	(2,399,819)	0	2,390,229	(9,590)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(2,027,205)	1,131,040	(2,362,294)	(3,258,459)
Fund Balances - July 1, 2000	4,187,117	0	2,362,294	6,549,411
Fund Balances - June 30, 2001	<u>\$ 2,159,912</u>	<u>\$ 1,131,040</u>	<u>\$ 0</u>	<u>\$ 3,290,952</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, 2001

	TAX OVERRIDE		
	Budget	Actual	Variance Favorable (Unfavorable)
<u>REVENUES</u>			
Other State Revenue	\$ 1,523	\$ 1,523	
Other Local Revenue	371,093	371,091	\$ (2)
Total Revenues	372,616	372,614	(2)
Other Financing Sources (Uses):			
Operating Transfers Out	(2,392,260)	(2,390,229)	2,031
Other Uses	(9,590)	(9,590)	
Total Other Financing Sources (Uses)	(2,401,850)	(2,399,819)	2,031
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>\$ (2,029,234)</u>	(2,027,205)	<u>\$ 2,029</u>
Fund Balances - July 1, 2000		4,187,117	
Fund Balances - June 30, 2001		<u>\$ 2,159,912</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, 2001

	TOTAL DEBT SERVICE FUNDS		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Other State Revenue	\$ 1,523	\$ 28,965	\$ 27,442
Other Local Revenue	371,093	2,403,110	2,032,017
Interest Income		123,641	123,641
Total Revenues	372,616	2,555,716	2,183,100
EXPENDITURES			
Debt Service:			
Principal Retirement		4,660,000	(4,660,000)
Interest and Fiscal Charges		1,144,585	(1,144,585)
Total Expenditures	0	5,804,585	(5,804,585)
Excess of Revenues Over (Under) Expenditures	372,616	(3,248,869)	(3,621,485)
Other Financing Sources (Uses):			
Operating Transfers In		2,390,229	2,390,229
Operating Transfers Out	(2,392,260)	(2,390,229)	2,031
Other Uses	(9,590)	(9,590)	
Total Other Financing Sources (Uses)	(2,401,850)	(9,590)	2,392,260
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>\$ (2,029,234)</u>	(3,258,459)	<u>\$ (1,229,225)</u>
Fund Balances - July 1, 2000		6,549,411	
Fund Balances - June 30, 2001		<u>\$ 3,290,952</u>	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

MORGAN HILL UNIFIED SCHOOL DISTRICT
COMBINING BALANCE SHEET
CAPITAL PROJECTS FUNDS
JUNE 30, 2001

	Mello Roos	Building Fund	Capital Facilities	Roof Replacement	County Schools Facilities	Totals
ASSETS						
Cash in County Treasury	\$ 168,738	\$ 38,009,289	\$ 1,724,130	\$ 429	\$ 8,827	\$ 39,911,413
Accounts Receivable						
Interest	3,298	534,806	21,435	5	7,173	566,717
Miscellaneous			20,961			20,961
Due from Other Funds		982,080	44,747			1,026,827
Prepaid Expenses			1,767			1,767
Total Assets	<u>\$ 172,036</u>	<u>\$ 39,526,175</u>	<u>\$ 1,813,040</u>	<u>\$ 434</u>	<u>\$ 16,000</u>	<u>\$ 41,527,685</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts Payable	\$ 9,019	\$ 127,075	\$ 34,239	\$ 347		\$ 170,680
Due to Other Funds	14,005	966,078	170,193		\$ 16,000	1,166,276
Total Liabilities	<u>23,024</u>	<u>1,093,153</u>	<u>204,432</u>	<u>347</u>	<u>16,000</u>	<u>1,336,956</u>
Fund Balances:						
Unreserved						
Undesignated	149,012	38,433,022	1,608,608	87		40,190,729
Total Fund Balances	<u>149,012</u>	<u>38,433,022</u>	<u>1,608,608</u>	<u>87</u>	<u>0</u>	<u>40,190,729</u>
Total Liabilities and Fund Balances	<u>\$ 172,036</u>	<u>\$ 39,526,175</u>	<u>\$ 1,813,040</u>	<u>\$ 434</u>	<u>\$ 16,000</u>	<u>\$ 41,527,685</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 PROJECTS FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

	Mello Roos	Building Fund	Capital Facilities	Roof Replacement	County Schools Facilities	Totals
REVENUES						
Other State Sources:						
Other					\$ 551,832	\$ 551,832
Local Sources:						
Interest	\$ 98,580	\$ 2,148,502	\$ 202,698	\$ 25	25,719	2,475,524
Other	471,282		2,477,735			2,949,017
Total Revenues	569,862	2,148,502	2,680,433	25	577,551	5,976,373
EXPENDITURES						
Certificated Salaries	30,353		52,961			83,314
Classified Salaries	18,386	537	45,318			64,241
Employee Benefits	4,570	49	17,630			22,249
Books and Supplies			3,644			3,644
Services and Other						
Operating Expenditures	67,068	2,389	206,715			276,172
Capital Outlay	2,535,458	3,995,470	4,033,805			10,564,733
Debt Service:						
Interest and Fiscal Charges		304,000				304,000
Other Outgo	2,272		5,532			7,804
Total Expenditures	2,658,107	4,302,445	4,365,605	0	0	11,326,157
Excess of Revenues Over (Under) Expenditures	(2,088,245)	(2,153,943)	(1,685,172)	25	577,551	(5,349,784)
Other Financing Sources (Uses):						
Operating Transfers In		577,551	16,636			594,187
Operating Transfers Out			(80,912)		(577,551)	(658,463)
Other Sources		38,000,000				38,000,000
Other Uses		(36,432)				(36,432)
Total Other Financing Sources (Uses)	0	38,541,119	(64,276)	0	(577,551)	37,899,292
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(2,088,245)	36,387,176	(1,749,448)	25	0	32,549,508
Fund Balances - July 1, 2000	2,237,257	2,045,846	3,358,056	62	0	7,641,221
Fund Balances - June 30, 2001	\$ 149,012	\$ 38,433,022	\$ 1,608,608	\$ 87	\$ 0	\$ 40,190,729

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 PROJECTS FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	MELLO ROOS		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Other Local Revenue	\$ 950,000	\$ 471,282	\$ (478,718)
Interest Income		98,580	98,580
Total Revenues	950,000	569,862	(380,138)
EXPENDITURES			
Certificated Salaries	39,173	30,353	8,820
Classified Salaries	34,656	18,386	16,270
Employee Benefits	9,584	4,570	5,014
Books and Supplies	120		120
Services and Other			
Operating Expenditures	248,368	67,068	181,300
Capital Outlay	2,853,084	2,535,458	317,626
Other Outgo	2,272	2,272	
Total Expenditures	3,187,257	2,658,107	529,150
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ (2,237,257)	(2,088,245)	\$ 149,012
Fund Balances - July 1, 2000		2,237,257	
Fund Balances - June 30, 2001		\$ 149,012	

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 PROJECTS FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	BUILDING FUND		Variance Favorable (Unfavorable)
	Budget	Actual	
REVENUES			
Interest Income	\$ 2,148,502	\$ 2,148,502	
EXPENDITURES			
Classified Salaries	537	537	
Employee Benefits	49	49	
Services and Other			
Operating Expenditures	335,486	2,389	\$ 333,097
Capital Outlay	76,054,406	3,995,470	72,058,936
Debt Service:			
Interest and Fiscal Charges	304,000	304,000	
Total Expenditures	76,694,478	4,302,445	72,392,033
Excess of Revenues Over (Under) Expenditures	(74,545,976)	(2,153,943)	72,392,033
Other Financing Sources (Uses):			
Operating Transfers In		577,551	577,551
Other Sources	73,381,552	38,000,000	(35,381,552)
Other Uses	(36,432)	(36,432)	
Total Other Financing Sources (Uses)	73,345,120	38,541,119	(34,804,001)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ (1,200,856)	36,387,176	\$ 37,588,032
Fund Balances - July 1, 2000		2,045,846	
Fund Balances - June 30, 2001		\$ 38,433,022	

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 PROJECTS FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	CAPITAL FACILITIES		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Other Local Revenue	\$ 2,695,610	\$ 2,477,735	\$ (217,875)
Interest Income	202,700	202,698	(2)
Total Revenues	2,898,310	2,680,433	(217,877)
EXPENDITURES			
Certificated Salaries	52,961	52,961	
Classified Salaries	46,654	45,318	1,336
Employee Benefits	20,490	17,630	2,860
Books and Supplies	3,644	3,644	
Services and Other			
Operating Expenditures	1,261,834	206,715	1,055,119
Capital Outlay	4,161,194	4,033,805	127,389
Other Outgo	5,707	5,532	175
Total Expenditures	5,552,484	4,365,605	1,186,879
Excess of Revenues Over (Under) Expenditures	(2,654,174)	(1,685,172)	969,002
Other Financing Sources (Uses):			
Operating Transfers In	16,636	16,636	
Operating Transfers Out	(80,912)	(80,912)	
Total Other Financing Sources (Uses)	(64,276)	(64,276)	0
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>\$ (2,718,450)</u>	<u>(1,749,448)</u>	<u>\$ 969,002</u>
Fund Balances - July 1, 2000		3,358,056	
Fund Balances - June 30, 2001		<u>\$ 1,608,608</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 PROJECTS FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	ROOF REPLACEMENT		
	Budget	Actual	Variance Favorable (Unfavorable)
<u>REVENUES</u>			
Interest Income	\$ 25	\$ 25	\$ 0
Excess of Revenues and Other Sources Over Expenditures and Other Uses	<u>\$ 25</u>	<u>25</u>	<u>\$ 0</u>
Fund Balances - July 1, 2000		<u>62</u>	
Fund Balances - June 30, 2001		<u>\$ 87</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 PROJECTS FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	COUNTY SCHOOLS FACILITIES		
	Budget	Actual	Variance Favorable (Unfavorable)
<u>REVENUES</u>			
Other State Revenue	\$ 551,832	\$ 551,832	\$
Interest Income	25,719	25,719	
Total Revenues	577,551	577,551	0
Other Financing Sources (Uses):			
Operating Transfers Out	(577,551)	(577,551)	
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>\$ 0</u>	0	<u>\$ 0</u>
Fund Balances - July 1, 2000		0	
Fund Balances - June 30, 2001		<u>\$ 0</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 PROJECTS FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	TOTAL CAPITAL PROJECTS FUNDS		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Other State Revenue	\$ 551,832	\$ 551,832	
Other Local Revenue	3,645,610	2,949,017	\$ (696,593)
Interest Income	2,376,946	2,475,524	98,578
Total Revenues	6,574,388	5,976,373	(598,015)
EXPENDITURES			
Certificated Salaries	92,134	83,314	8,820
Classified Salaries	81,847	64,241	17,606
Employee Benefits	30,123	22,249	7,874
Books and Supplies	3,764	3,644	120
Services and Other			
Operating Expenditures	1,845,688	276,172	1,569,516
Capital Outlay	83,068,684	10,564,733	72,503,951
Debt Service:			
Interest and Fiscal Charges	304,000	304,000	
Other Outgo	7,979	7,804	175
Total Expenditures	85,434,219	11,326,157	74,108,062
Excess of Revenues Over (Under) Expenditures	(78,859,831)	(5,349,784)	73,510,047
Other Financing Sources (Uses):			
Operating Transfers In	16,636	594,187	577,551
Operating Transfers Out	(658,463)	(658,463)	
Other Sources	73,381,552	38,000,000	(35,381,552)
Other Uses	(36,432)	(36,432)	
Total Other Financing Sources (Uses)	72,703,293	37,899,292	(34,804,001)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ (6,156,538)	32,549,508	\$ 38,706,046
Fund Balances - July 1, 2000		7,641,221	
Fund Balances - June 30, 2001		\$ 40,190,729	

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, 2001

	<u>Balance</u> <u>July 1, 2000</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2001</u>
<u>LIVE OAK HIGH SCHOOL</u>				
<u>ASSETS</u>				
Cash	<u>\$ 280,755</u>	<u>\$ 70,131</u>	<u>\$112,969</u>	<u>\$ 237,917</u>
<u>LIABILITIES</u>				
Due to Student Groups	<u>\$ 280,755</u>	<u>\$ 70,131</u>	<u>\$112,969</u>	<u>\$ 237,917</u>
<u>MARTIN MURPHY MIDDLE SCHOOL</u>				
<u>ASSETS</u>				
Cash	<u>\$ 17,959</u>	<u>\$108,944</u>	<u>\$113,710</u>	<u>\$ 13,193</u>
<u>LIABILITIES</u>				
Due to Student Groups	<u>\$ 17,959</u>	<u>\$108,944</u>	<u>\$113,710</u>	<u>\$ 13,193</u>
<u>BRITTON MIDDLE SCHOOL</u>				
<u>ASSETS</u>				
Cash	<u>\$ 34,132</u>	<u>\$200,024</u>	<u>\$205,850</u>	<u>\$ 28,306</u>
<u>LIABILITIES</u>				
Due to Student Groups	<u>\$ 34,132</u>	<u>\$200,024</u>	<u>\$205,850</u>	<u>\$ 28,306</u>
<u>TOTAL – ALL AGENCY FUNDS</u>				
<u>ASSETS</u>				
Cash	<u>\$332,846</u>	<u>\$379,099</u>	<u>\$432,529</u>	<u>\$279,416</u>
<u>LIABILITIES</u>				
Due to Student Groups	<u>\$332,846</u>	<u>\$379,099</u>	<u>\$432,529</u>	<u>\$279,416</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, 2001, and have issued our report thereon dated October 26, 2001. These financial statements are the responsibility of the District's management. Our responsibility was to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. 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.

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.

Richard J. GoodeLL, Porter & Fredericks, LLP

GOODELL, PORTER & FREDERICKS, LLP
Certified Public Accountants

October 26, 2001

MORGAN HILL UNIFIED SCHOOL DISTRICT

MORGAN HILL, CALIFORNIA

JUNE 30, 2001

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, 2001, was composed of the following members:

Board of Education

<u>Name</u>	<u>Office</u>	<u>Term expires</u>
Del Foster	President	November 2004
Jan Masuda	Vice-President	November 2004
John Kennett	Member	November 2002
George Panos	Member	November 2004
Susan Martimo Choi	Member	November 2002
Rick Herder	Member	November 2002
Tom Kinoshita	Member	November 2002

ADMINISTRATION

Dr. Carolyn McKennan
Superintendent

MORGAN HILL UNIFIED SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	<u>Second Period Report</u>	<u>Annual Report</u>
<u>Elementary</u>		
Kindergarten	630	630
First through Third	2,014	2,014
Fourth through Sixth	1,990	1,990
Seventh through Eighth	1,222	1,222
Opportunity Schools	6	6
Home and Hospital	1	1
Special Education	115	115
Extended year	<u>6</u>	<u>6</u>
Subtotals	<u>5,984</u>	<u>5,984</u>
<u>Secondary</u>		
Regular Classes	2,380	2,380
Special Education	41	41
Compulsory Continuation Education	79	78
Opportunity Schools	7	7
Home & Hospital	<u>2</u>	<u>2</u>
Subtotals	<u>2,509</u>	<u>2,508</u>
<u>Classes for Adults</u>		
Concurrently Enrolled	2	2
Not concurrently Enrolled	<u>171</u>	<u>168</u>
Totals	<u>8,666</u>	<u>8,662</u>
	<u>Hours of Attendance</u>	
<u>Summer School</u>		
Elementary	62,350	62,918
High School	<u>36,627</u>	<u>36,627</u>
Totals	<u>98,977</u>	<u>99,545</u>

SEE NOTES TO SUPPLEMENTARY INFORMATION

MORGAN HILL UNIFIED SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME OFFERED
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

<u>Grade Level</u>	<u>1986-87 Minutes Requirement</u>	<u>1982-83 Actual Minutes</u>	<u>2000-2001 Actual Minutes</u>	<u>Status</u>
Kindergarten	36,000	31,680	36,000	In Compliance
Grade 1 to 3	50,400	48,130	51,150	In Compliance
Grade 4 to 6	54,000	51,920	54,675	In Compliance
Grade 7 to 8	54,000	55,715	64,926	In Compliance
Grade 9	64,800	55,715	64,836	In Compliance
Grade 10 to 12	64,800	60,849	64,836	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, 2001

<u>Program Name:</u>	<u>Federal Catalog Number</u>	<u>Pass- Through Entity Identifying Number</u>	<u>Program Expenditures</u>
Federal:			
US Department of Agriculture:			
Passed through the California Department of Education (CDE):			
National School Lunch	10.555	13524	\$ 472,332
Especially Needy Breakfast	10.553	13526	186,426
Basic School Breakfast	10.553	13525	18,120
US Department of Education:			
Passed through CDE:			
IASA - Title I	84.010	13064	458,789
IASA - Title VI - Innovative Strategies	84.298	13340	34,664
IASA - Title VI - Class Size Reduction	84.340	13073	215,506
Special Education			
Discretionary	84.027	13612	5,294
Preschool	84.173	13430	65,179
Local Assistance	84.027	13379	655,265
Vocational Education Act	84.048	13924	36,638
IASA - Title II Eisenhower	84.281	13207	48,353
Drug Free Schools and Communities Act of 1986	84.186	13453	35,944
Adult Education			
Adult Basic Education	84.002	13973	32,632
Vocational Education Act	84.048	13924	228
CalWorks	N/A	03005	95,400
Migrant Education	84.011	13174	38,794
Migrant Summer School	84.011	13174	23,940
Even Start	84.213	13001	13,751
Goals 2000	84.276	13268	2,550
Total Federal Programs			<u>\$ 2,439,805</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, 2001

	<u>General Long-Term Debt Account Group</u>
June 30, 2001 Annual Financial and Budget Report (J-249) Total Liabilities	<u>\$38,421,859</u>
Adjustments and Reclassifications:	
Increase (Decrease) in Total Liabilities:	
Overstatement of Capital Leases Obligations	(126,688)
Understatement of Compensated Absences	<u>25,871</u>
Net Adjustments and Reclassifications	<u>(100,817)</u>
June 30, 2001, Audited Financial Statement General Long-Term Debt Total Liabilities	<u>\$38,321,042</u>

Auditor's Comments

The audited financial statements of all funds were in agreement with the Annual Financial and Budget Report (J-200) for the year ended June 30, 2001.

The Mello Roos Fund is classified as a capital projects fund in the audit report. However, it was reported as a debt service fund on Form J-228.

MORGAN HILL UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	(Budget) 2001-2002	2000-2001	1999-2000	1998-1999
<u>General Fund</u>				
Revenues and Other Financial Sources	\$ 52,940,591	\$ 55,262,284	\$ 49,525,477	\$ 48,629,812
Expenditures	53,422,321	54,798,660	49,284,523	47,631,286
Other Uses and Transfers Out	163,000	20,850	538,327	249,137
Total Outgo	53,585,321	54,819,510	49,822,850	47,880,423
Change in Fund Balance (Deficit)	(644,730)	442,774	(297,373)	749,389
Ending Fund Balance	\$ 4,231,461	\$ 4,876,191	\$ 4,433,417	\$ 4,730,790
Available Reserves	\$ 1,608,984	\$ 2,080,994	\$ 2,734,518	\$ 2,199,940
Designated for Economic Uncertainties	\$ 1,607,560	\$ 1,640,110	\$ 1,489,441	\$ 1,502,369
Undesignated Fund Balance	\$ 1,424	\$ 440,884	\$ 1,245,077	\$ 697,571
Available reserves as a percentage of total outgo	3.0%	3.8%	5.5%	4.6%
Total long-term debt	\$ 38,257,281	\$ 38,321,042	\$ 5,046,359	\$ 9,128,285
Average daily attendance at P-2 (excluding Adult Education)	8,385	8,493	8,628	8,742

Available reserves includes General Fund designated for economic uncertainty and General Fund unrestricted, undesignated fund balance. The general fund balance has increased by \$894,790 over the past three years. The fiscal year 2001-2002 budget projects a decrease of \$644,730 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 increased by \$29,192,757 over the past two years.

Total average daily attendance (excluding Adult Education) has decreased 249 over the past two years.

SEE NOTES TO SUPPLEMENTARY INFORMATION

MORGAN HILL UNIFIED SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2001

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.

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

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

We have audited the general purpose financial statements of the Morgan Hill Unified School District, as of and for the year ended June 30, 2001, and have issued our report thereon dated October 26, 2001. Our audit was made in accordance with U.S. generally accepted auditing standards, the standards for financial and compliance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Controller's *Standards and Procedures for Audits of California K-12 Local Educational Agencies*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

<u>Description</u>	<u>Procedures in Controller's Audit Guide</u>	<u>Procedures Performed</u>
Attendance accounting:		
Attendance reporting	3	Yes
Staff development days	3	Yes
Kindergarten Enrollment	4	Yes
Independent study	13	Yes
Continuation education	12	Yes
Adult education	8	Yes
Regional Occupational Center/Programs	5	Not Applicable
County Office of Education programs	9	Not Applicable

<u>Description</u>	<u>Procedures in Controller's Audit Guide</u>	<u>Procedures Performed</u>
Incentives 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:		
Option One classes	11	Yes
Option Two classes	10	Not Applicable
Option One and Two classes	16	Not Applicable
Program to Reduce Class Size in Grade 9	8	Not Applicable
State Instructional Materials Fund (K through 8)	8	Yes
Schiff-Bustamante Standards-Based		
Instructional Materials	4	Yes
Digital High School Education Technology		
Grant Program	5	Yes
California Public School Library		
Act of 1998, K-12	4	Yes

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

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


GOODELL, PORTER & FREDERICKS, LLP
Certified Public Accountants

October 26, 2001

GOODELL,
PORTER &
FREDERICKS, LLP

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

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE 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, 2001, and have issued our report thereon dated October 26, 2001. We conducted our audit in accordance with U.S. 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

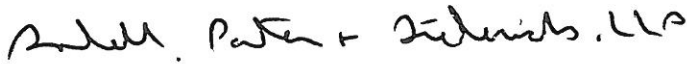
As part of obtaining reasonable assurance about whether Morgan Hill Unified School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and 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. We believe the condition described as 2001-2 is a material weakness.

This report is intended for the information of the District Board, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.


GOODELL, PORTER & FREDERICKS, LLP
Certified Public Accountants

October 26, 2001

GOODELL,
PORTER &
FREDERICKS, LLP

CERTIFIED
PUBLIC
ACCOUNTANTS

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

INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE 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, 2001. 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 U.S. 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, 2001.

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 solely for the information and use of the Governing Board, management, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than the specified parties.


GOODELL, PORTER & FREDERICKS, LLP
Certified Public Accountants

October 26, 2001

FINDINGS AND RECOMMENDATIONS SECTION

MORGAN HILL UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2001

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
10.553	Especially Needy Breakfast
10.553	Basic School Breakfast
84.027	Special Education - Local Assistance
84.027	Special Education - Discretionary

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

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

State Awards

Internal control over state programs:

Material weakness(es) identified? ☐ Yes ☒ No

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

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

MORGAN HILL UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2001

Section II - Financial Statements Findings

2001 - 1 – 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 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 agree that reconciling of bank statements is best accounting procedures and have adhered to completing the monthly reconciliation in the past. However, we have been suffering with a staff shortage with two people attempting to manage the work of four, which has required that work be redistributed. We have begun the training of our new staff in their respective duties and we will return to timely monthly reconciliation's of the bank statements. As part of the reconciling process, the individual reconciling the bank statement will also advise the person maintaining the account of all charges/voids to be posted. As part of the reconciliation posting, we will post stale-dated checks, reimburse the revolving fund for bank service charges and interest earned.

2001 - 2 – CLEARING ACCOUNTS - 30000

Specific Requirement That Was Not Complied With: Sound accounting practices require accounts that are used to deposit and pay payroll and employee benefits 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. The clearing account debit balances at June 30, 2001 were \$127,439 and \$47,083 in the General Fund and Cafeteria Fund, respectively. These amounts represent unrecorded expenses, prepaid expenses, or the under-withholding of employee benefits. Since the accounts were not reconciled, the reason for the debit balances could not be determined.

MORGAN HILL UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2001

Section II - Financial Statements Findings (Continued)

2001 - 2 – CLEARING ACCOUNTS – 30000 (CONCLUDED)

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: All clearing accounts utilized by the District should be reconciled on a monthly basis to identify potential discrepancies in a timely manner. The Health Benefits Clerk in Personnel will be trained to review the appropriate reports to assist in the payment and reconciliation of the clearing accounts.

Section III - Federal Award Findings and Questioned Costs

No matters are reported

Section IV - State Award Findings and Questioned Costs

2001 – 3 – ATTENDANCE – REGISTERS – 10000

Specific Requirement Not Complied With: Sound reporting practices require that teachers in secondary schools record attendance for each period a class is held.

Finding: During our testing of the computer scantron reports at Live Oak High School, we determined some teachers were not taking attendance each period. We determined teachers would record attendance at the end of the day relying on their memory of which students had attended classes throughout the day.

Effect: Students could be marked absent when they are actually present or they could be marked present when they are actually absent. Failure to take attendance for each period can result in either an overstatement or understatement of attendance reported for apportionment purposes. We applied additional audit procedures to the extent we considered necessary to satisfy ourselves that the attendance at Live Oak High School was not misstated and therefore do not recommend that the District revise reported ADA.

Recommendation: We recommend that all teachers at Live Oak High School complete the scantron reports each period. We also recommend that the scantron reports be picked up from the teachers by attendance office personnel after each period.

MORGAN HILL UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2001

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

2001 – 3 – ATTENDANCE – REGISTERS – 10000

District Response: Live Oak High School has implemented a process that attendance sheets are picked up by the attendance office personnel every period. Collection begins 15 minutes after the start of each period. All teachers know to take attendance at the beginning of class and to have designated location for the completed attendance sheets that is easily accessible to attendance staff. To address the possibility of teacher error, the following steps are taken:

- Students who are marked absent in one or two periods on any one day receive an “Absence Summons”.
- Teachers who report students as being present in their class but who were marked absent in four or five periods on any one day receive a “Possible Non-Reported Absence Report”.

The teachers and students then have the responsibility to return these forms to the attendance office where the result is recorded or corrected into SASI.

MORGAN HILL UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

JUNE 30, 2001

<u>Findings/Recommendations</u>	<u>Current Status</u>	<u>Explanation if Not Fully Implemented</u>
1. Each student body account should prepare a financial activity report at least twice each year and maintain records in an auditable form. In addition, monthly bank reconciliations should be performed timely with differences promptly resolved.	Accepted Implemented	
2. The Britton Middle School student body should separate the responsibilities of receipting cash, preparing deposits, and maintaining accounting records.	Accepted Implemented	
3. Cash in the student body funds should not be used for personal expenditures by staff members or students. Receipts should be recorded in the ASB books and deposited into the bank account promptly and intact.	Accepted Implemented	
4. Revolving 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.	Accepted Not Implemented	Comment repeated See finding 2001-1
5. All clearing accounts utilized by the District should be reconciled on a monthly basis to identify potential discrepancies in a timely manner.	Accepted Not Implemented	Comment repeated See finding 2001-2

MORGAN HILL UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

JUNE 30, 2001

<u>Findings/Recommendations</u>	<u>Current Status</u>	<u>Explanation if Not Fully Implemented</u>
6. All employees with excessive vacation time should be required to submit a plan to management for using the vacation in excess of the allowable amount by June 30, 2001.	Accepted Implemented	
7. The original daily attendance registers prepared by the teachers should be signed before it is submitted to the school secretary at the end of the month.	Accepted Implemented	
8. All teachers at Live Oak High School should complete the scantron attendance reports each period. The scantron reports should be picked up from the teachers by attendance office personnel after each period.	Accepted Not Implemented	Comment repeated See finding 2001-6
9. The district should begin using the state approved kindergarten retention form for all kindergarten students retained. In addition, the district should file amended P-2 and annual attendance reports to omit the eight retained kindergarten students.	Accepted Partially Implemented	The District is using State approved Kindergarten retention form. The District has not revised 1999-2000 attendance reports to adjust for attendance relating to the eight identified students. Comment not repeated.