

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

AUDIT REPORT

JUNE 30, 2003

Revised 6/21/04

MORGAN HILL UNIFIED SCHOOL DISTRICT

JUNE 30, 2003

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MORGAN HILL UNIFIED SCHOOL DISTRICT

JUNE 30, 2003

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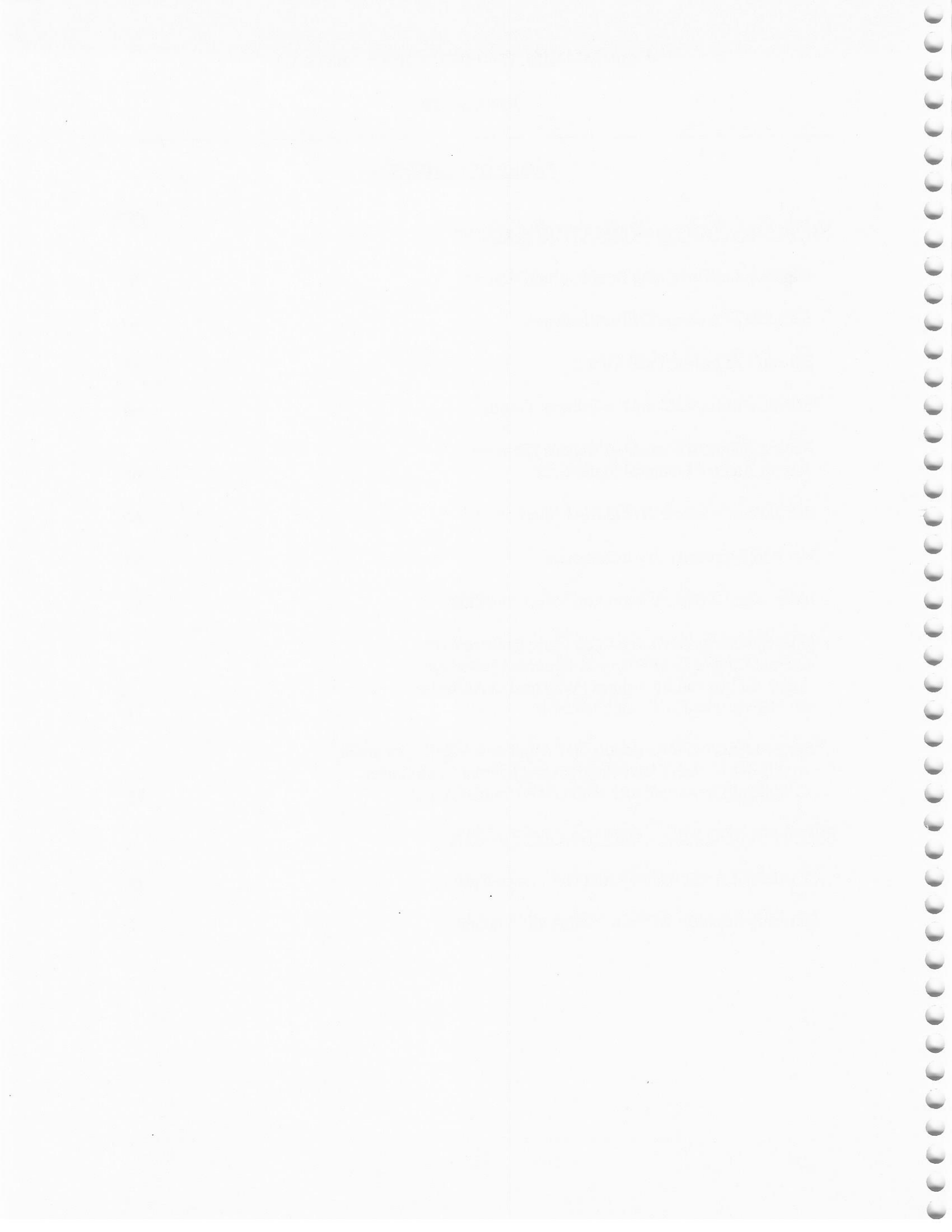
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MORGAN HILL UNIFIED SCHOOL DISTRICT

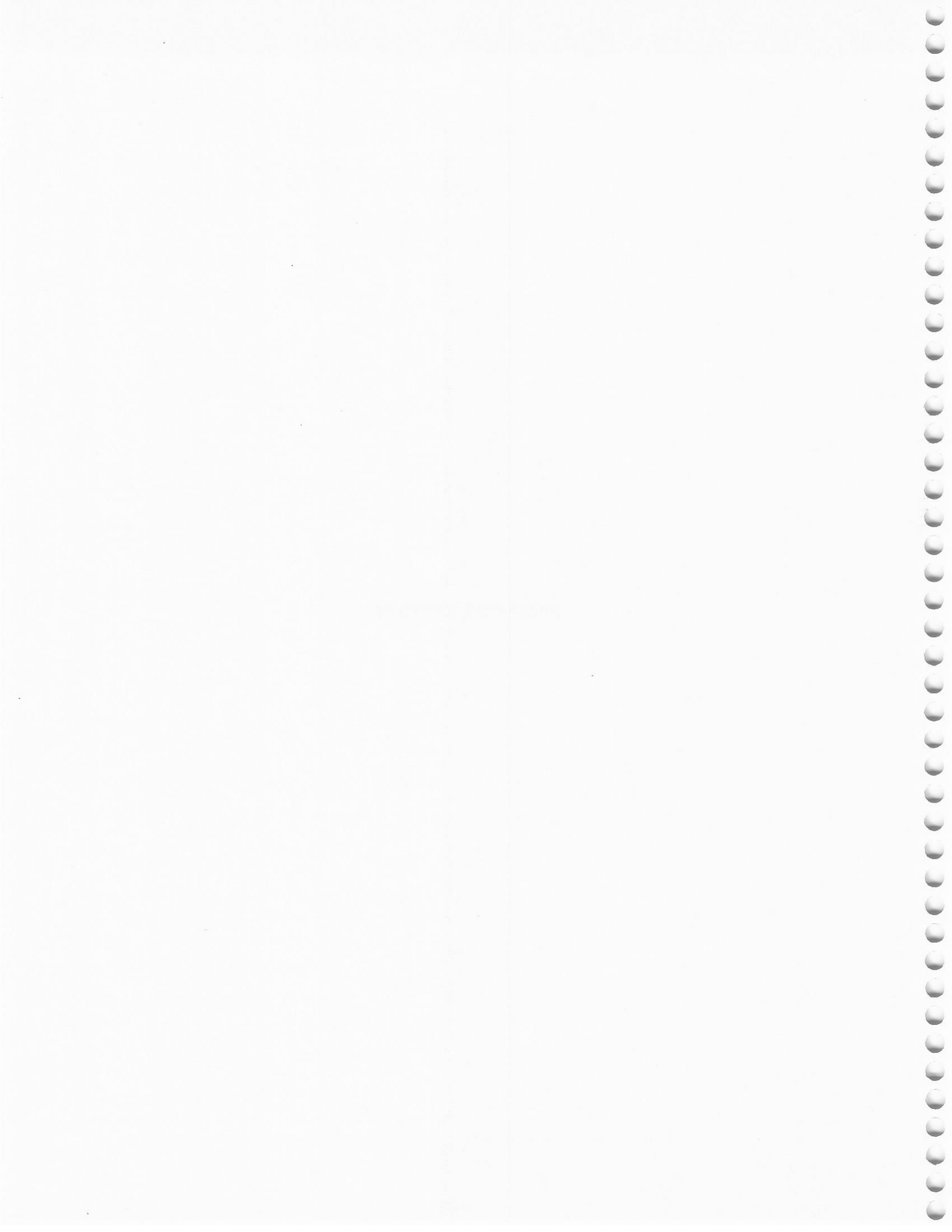
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FINANCIAL SECTION



GOODELL,
PORTER &
FREDERICKS, LLP

CERTIFIED
PUBLIC
ACCOUNTANTS

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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

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

We have audited the accompanying financial statements of the governmental activities and each major fund of the Morgan Hill Unified School District as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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.


In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the Morgan Hill Unified School District at June 30, 2003 and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Board of Directors
Morgan Hill Unified School District
Page Two

The Management's Discussion and Analysis on page 3 through 13 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 21, 2003 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Morgan Hill Unified School District's basic financial statements. The combining and individual fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of 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 also not a required part of the basic financial statements of Morgan Hill Unified School District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.


GOODELL, PORTER & FREDERICKS, LLP
Certified Public Accountants

November 21, 2003

MORGAN HILL UNIFIED SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS

JUNE 30, 2003

The discussion and analysis of Morgan Hill Unified School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2003. The intent of this discussion and analysis is to look at the District's financial performance as a whole. To provide a complete understanding of the District's financial performance, please read it in conjunction with the Independent Auditor's Report on page 1, notes to the basic financial statements on pages 23-42, and the District's financial statements, which begin on page 43.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments issued June 1999. Certain comparative information is required to be presented in the MD&A. However, because this is the first year of implementing the new reporting model, certain comparative information is not available. Prior-year comparative data will be available in the future to provide a more meaningful comparative analysis of the government-wide data.

FINANCIAL HIGHLIGHTS

- The increase in Revenue Limit from 2001-2002 to 2002-2003 was \$69,464 or 0.2% compared with an increase of \$866,387 or over 2% between 2000-2001 and 2001-2002.
- As the cost of general fund operation increase exceeded increased revenue, budget reductions were made in order to keep overall expenditure decrease to 2% over the previous year, as compared with a 5% increase between 2000-2001 and 2001-2002.
- General Fund expenditures and other uses exceeded revenues and other sources by \$637,462, ending the year with available reserves of \$1 million, lower than the State recommended reserve level of 3%.
- In complying with GASB 34, fixed assets were valued at historical cost and are reported for the first time. The total of the District's fixed assets, land, buildings, and equipment, valued on an acquisition cost basis was \$130 million. After depreciation, the June 30, 2003 book value for fixed assets totaled \$99 million.

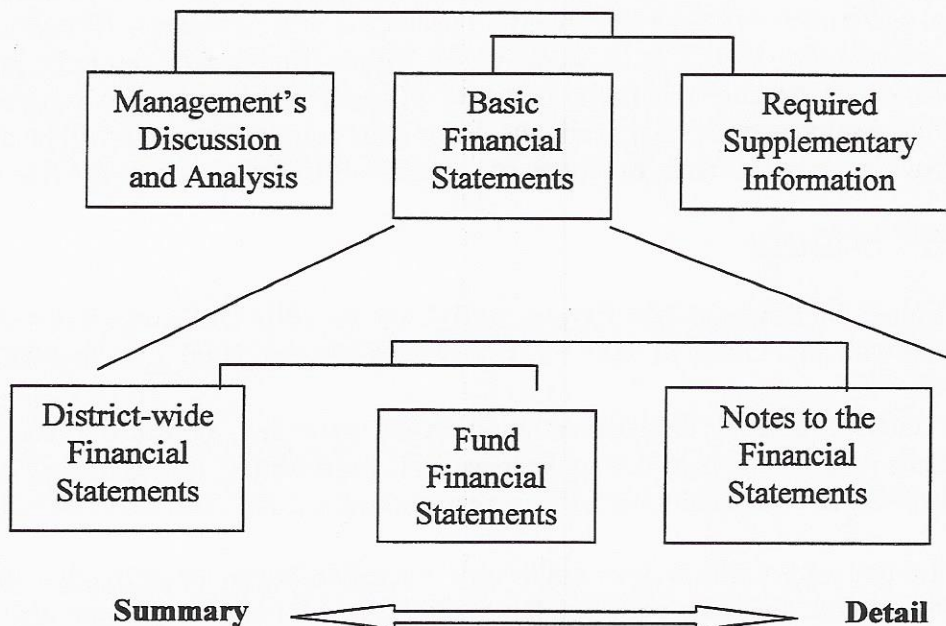
MORGAN HILL UNIFIED SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS

JUNE 30, 2003

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Components of the Financial Section



The first two statements are *district-wide financial statements*, the Statement of Net Assets and Statement of Activities. These statements provide information about the activities of the whole School District, presenting both an aggregate view of the District’s finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District’s more significant funds with all other non-major funds presented in total in one column. A comparison of the District’s general fund budget is included.

MORGAN HILL UNIFIED SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS

JUNE 30, 2003

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Components of the Financial Section (Concluded)

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements.

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

These two new statements provide information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities using the accrual basis of accounting. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid. These statements report information on the district as a whole and its activities in a way that helps answer the question, "How did we do financially during 2002-03?"

These two statements report the School District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Over time, the increases or decreases in the District's net assets, as reported in the Statement of Activities, are one indicator of whether its financial health is improving or deteriorating. The relationship between revenues and expenses indicates the District's operating results. However, the District's goal is to provide services to our students, not to generate profits as commercial entities. One must consider many other non-financial factors, such as the quality of education provided and the safety of the schools to assess the overall health of the District.

- ◆ Increases or decreases in the net assets of the District over time are indications of whether its financial position is improving or deteriorating, respectively.
- ◆ Additional non-financial factors such as condition of school buildings and other facilities, and changes to the property tax base of the District need to be considered in assessing the overall health of the District.

MORGAN HILL UNIFIED SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS

JUNE 30, 2003

OVERVIEW OF THE FINANCIAL STATEMENTS (CONCLUDED)

Reporting the School District's Most Significant Funds

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. Some funds are required to be established by State law. However, the District establishes other funds to control and manage money for specific purposes.

◆ **Governmental Funds**

Most of the School District's activities are reported in governmental funds. The major governmental funds of the District are the General Fund, Capital Facilities Fund, Building Fund and the County School Facilities Fund. Governmental funds focus on how money flows into and out of the funds and the balances that remain at the end of the year. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's operations and services that help determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

◆ **Fiduciary Funds**

The District is the trustee, or fiduciary, for its student activity funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets on page 21. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

MORGAN HILL UNIFIED SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS

JUNE 30, 2003

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

The School District as a Whole

The District's net assets were \$92 million at June 30, 2003. Of this amount \$-323 thousand was unrestricted. Investments in capital assets, net of related debt, account for \$27 million of the total net assets. A comparative analysis of government-wide data will be presented in future years.

(Table 1) Net Assets June 30, 2003		Governmental Activities
Assets		
Cash and Investments		\$ 68,891,782
Receivables		3,248,422
Stores and Prepaid expenses		538,429
Capital assets (net of depreciation)		99,268,153
Total assets		<u>171,946,786</u>
Liabilities		
Accounts payable and other current liabilities		3,547,042
Deferred revenue		714,902
Long-term liabilities		75,863,911
Total liabilities		<u>80,125,855</u>
Net Assets		
Invested in capital assets, net of related debt		26,934,493
Restricted		65,208,939
Unrestricted		(322,501)
Total Net Assets		<u>\$ 91,820,931</u>

MORGAN HILL UNIFIED SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS

JUNE 30, 2003

**FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS
(CONTINUED)**

The District's net asset position increased \$15.8 million this fiscal year (See Table 2). The District's expenses for instructional and pupil services represented 74 percent of total expenses. The purely administrative activities of the District accounted for just 5 percent of total costs. The remaining 21 percent was spent in the areas of plant services and other expenses, interest on long-term debt and other outgo. (See Figure 2).

(Table 2) Change in Net Assets For the Year Ended June 30, 2003	
	<u>Governmental Activities</u>
Revenues	
Program revenues	\$ 34,436,575
General revenues	
Taxes levied for general purposes	37,820,799
Taxes levied for other purposes	5,150,132
Federal and State Aid not restricted to specific purposes	4,844,267
Interest and investment earnings	207,708
Miscellaneous	930,705
Total revenues	<u>83,390,186</u>
Expenses	
Instruction	36,371,723
Instruction Related Services	6,778,827
Pupil Support Services	6,862,049
General Administration	3,144,215
Plant Services	6,310,988
Other	8,169,205
Total expenses	<u>67,637,007</u>
 Increase in net assets	 <u>\$ 15,753,179</u>

MORGAN HILL UNIFIED SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS

JUNE 30, 2003

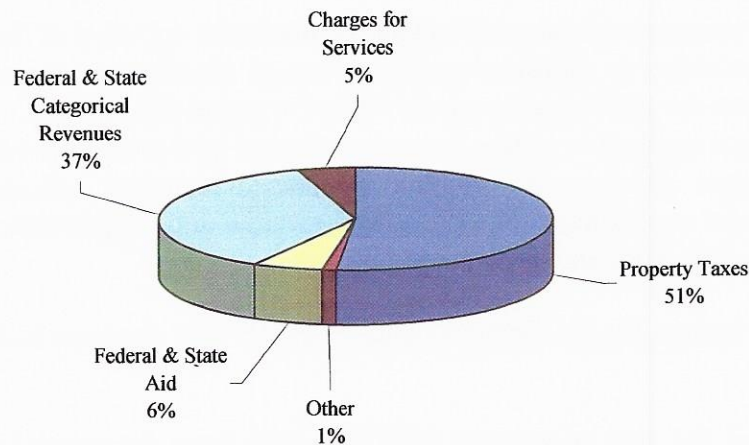
**FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS
(CONTINUED)**

Governmental Activities

As reported in the Statement of Activities on page 15, the cost of all of the District's governmental activities this year was \$68 million. The amount that our local taxpayers financed for these activities through property taxes was \$43 million. Federal and State aid not restricted to specific purposes totaled \$5 million. State and Federal Categorical revenue totaled over \$31 million, or 37% of the revenue of the entire District (See Figure 1).

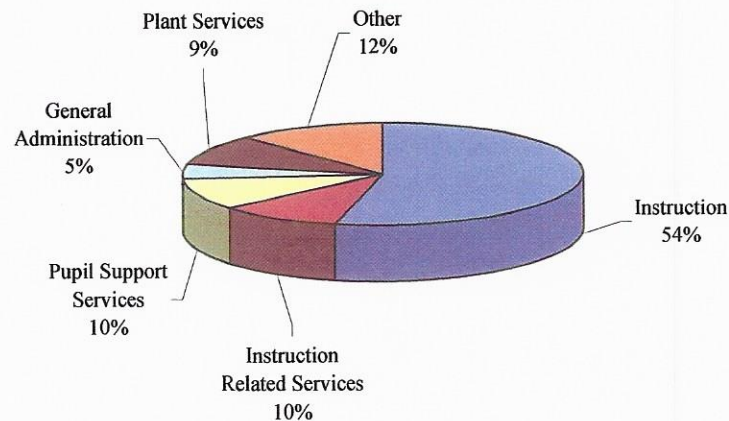
Sources of Revenue for the 2002-03 Fiscal Year

Figure 1



Expenses for the Fiscal Year 2002-03

Figure 2



MORGAN HILL UNIFIED SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS

JUNE 30, 2003

FINANCIAL ANALYSIS OF THE FUND STATEMENTS

The fund financial statements focus on individual parts of the District's operations in more detail than the government-wide statements. The District's individual fund statements provide information on inflows and outflows and balances of spendable resources. The District's Governmental Funds reported a combined fund balance of \$70 million, a decrease of \$53 thousand from the previous fiscal year. This decrease is mainly reflected in the Building Fund. The General Fund balance decreased \$637 thousand.

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget monthly. The significant budget adjustments fell into the following categories:

- ◆ Budget revisions to the adopted budget required after approval of the State budget.
- ◆ Budget revisions to update revenues to actual enrollment information and to update expenditures for staffing adjustments related to actual enrollments.
- ◆ Adjustments required to reflect the unprecedented mid-year State cuts in revenues.
- ◆ Other budget revisions are routine in nature, including adjustments to categorical revenues and expenditures based on final awards, and adjustments between expenditure categories for school and department budgets.

The final revised budget for the General Fund reflected a net decrease to the ending balance of \$2,322,283.

The District ended the year subtracting \$637 thousand from the general fund ending balance. The State recommends an ending reserve for economic uncertainties of 3%. The District's ending reserve was 2.7%.

MORGAN HILL UNIFIED SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS

JUNE 30, 2003

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of the 2002-03 fiscal year, the District had invested \$130 million in a broad range of capital assets, including school buildings, athletic facilities, administrative buildings, site improvements, vehicles, and equipment. The capital assets net of depreciation were \$99 million at June 30, 2003, which is an increase of \$19,056,160 from the previous year due to acquisitions totaling \$20,639,500 and depreciation expenses of \$1,583,340.

Table 3
Capital Assets
(net of depreciation)

	<u>2001-2002</u>	<u>2002-2003</u>	<u>Difference</u>	<u>Total Percent Change</u>
Land	\$ 724,021	\$ 724,021	\$ 0	0%
Buildings and Improvements	42,447,287	41,022,392	(1,424,895)	(3%)
Machinery & Equipment	918,367	783,837	(134,530)	(15%)
Work in Progress	36,122,318	56,737,903	20,615,585	57%
Total	\$80,211,993	\$99,268,153	\$19,056,160	24%

MORGAN HILL UNIFIED SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS

JUNE 30, 2003

CAPITAL ASSET AND DEBT ADMINISTRATION (CONCLUDED)

Long-Term Debt

At June 30, 2003, the District had \$76 million in long-term debt outstanding. Benefits provided to retirees of the District increased \$2 million in 2003.

**Morgan Hill Unified School District
Outstanding Debt
June 30, 2002 and 2003**

	<u>2002</u>	<u>2003</u>
General Obligation Bonds	\$72,497,754	\$72,322,754
Other Post Employment Benefits	1,085,565	3,231,737
Capital Lease Obligations	48,361	10,906
Compensated Absences	386,936	298,514
TOTAL	\$74,018,616	\$75,863,911

The long-term debt paid by the District was approximately \$301 thousand in 2003.

FACTORS BEARING ON THE DISTRICT'S FUTURE

The State's economic downturn is a major factor affecting the District's future. The financial well being of the District is tied in large measure to the state funding formula. Furthermore, the State's current year budget does not fully address its budget problem, so it is anticipated that further reductions in funding may be forthcoming.

The latest enrollment projections indicate a decrease in enrollment for the next school year. Student enrollment and attendance are primary factors in the computation of most funding formulas for public schools in the State of California.

In addition to the decrease in enrollment, the State's economic condition indicates a likely decline in the District's revenue, along with related budget reductions. The future predictions require management to plan carefully and prudently to provide the resources to meet student needs over the next several years. The District has an excellent track record in meeting this challenge in what has proven to be a cycle of lean years and prosperous years for education finances.

MORGAN HILL UNIFIED SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS

JUNE 30, 2003

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, parents, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact Fred Gallacinao, Director of Fiscal Services, Morgan Hill Unified School District, 15600 Concord Circle, Morgan Hill, CA 95037.

MORGAN HILL UNIFIED SCHOOL DISTRICT

STATEMENT OF NET ASSETS

JUNE 30, 2003

		Governmental Activities
<u>ASSETS</u>		
Cash (Note 2)		\$ 68,823,472
Investments (Note 2)		68,310
Accounts Receivable (Note 4)		3,248,422
Stores Inventory (Note 1H)		152,351
Prepaid Expenditures (Note 1H)		386,078
Capital Assets (Note 6):		
Land	\$ 724,021	
Buildings and Improvements	69,824,952	
Machinery and Equipment	3,160,217	
Work in Progress	56,737,903	
Less Accumulated Depreciation	<u>(31,178,940)</u>	
Total Capital Assets, Net of Depreciation		<u>99,268,153</u>
Total Assets		<u>\$ 171,946,786</u>
<u>LIABILITIES</u>		
Accounts Payable and Other Current Liabilities		\$ 3,547,042
Deferred Revenue (Note 1H)		714,902
Long-term Liabilities (Note 9)		
Due Within One Year:		
Capital Lease Obligations	\$ 9,802	
General Obligation Bonds Payable	245,000	
Compensated Absences Payable	298,514	
Other Postemployment Benefits	<u>830,741</u>	
Total Due Within One Year:		<u>1,384,057</u>
Due After One Year:		
Capital Lease Obligations	1,104	
General Obligation Bonds Payable	72,077,754	
Other Postemployment Benefits	<u>2,400,996</u>	
Total Due After One Year:		<u>74,479,854</u>
Total Liabilities		<u>\$ 80,125,855</u>
<u>NET ASSETS</u>		
Invested in Capital Assets, Net of Related Debt		\$ 26,934,493
Restricted For:		
Capital Projects		63,128,245
Debt Service		798,229
Educational programs		1,282,465
Unrestricted		<u>(322,501)</u>
Total Net Assets		<u>\$ 91,820,931</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

MORGAN HILL UNIFIED SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2003

Governmental Activities	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Instruction	\$ 36,371,723	\$ 116,099	\$ 6,012,637	\$ 17,496,889	\$ (12,746,098)
Instruction-related services:					
Supervision of instruction	1,763,046	86,350	1,477,435		(199,261)
Instructional library, media and technology	778,991	2,525	222,453		(554,013)
School site administration	4,236,790	27,810	107,774		(4,101,206)
Pupil Services:					
Home-to school transportation	2,547,442	238,195	1,536,776		(772,471)
Food services	1,933,886	1,101,025	749,770		(83,091)
All other pupil services	2,380,721	5,690	435,791		(1,939,240)
General administration:					
Data processing	659,801		17,412		(642,389)
All other general administration	2,484,414	75,346	655,949		(1,753,119)
Plant services	6,310,988	2,168,276	1,451,517		(2,691,195)
Ancillary services	340,487		55		(340,432)
Community services	48,272				(48,272)
Interest on long-term debt	4,778,657				(4,778,657)
Other Outgo	1,418,449	10,483	440,318		(967,648)
Depreciation (unallocated)*	1,583,340				(1,583,340)
Total Governmental Activities	\$ 67,637,007	\$ 3,831,799	\$ 13,107,887	\$ 17,496,889	(33,200,432)
General Revenues:					
Property Taxes Levied For:					
General Purposes					\$ 37,820,799
Debt Service					4,242,440
Taxes Levied for Other Specific Purposes					907,692
Federal and State Aid not Restricted					
to Specific Purposes					4,844,267
Interest and Investment Earnings					207,708
Miscellaneous					930,705
Total General Revenue					48,953,611
Change in Net Assets					15,753,179
Net Assets Beginning					76,067,752
Net Assets Ending					\$ 91,820,931

*This amount excludes depreciation that is included in the direct expenses of various programs.

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

MORGAN HILL UNIFIED SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2003

	General Fund	Capital Facilities	Building Fund	County School Facilities	Other Governmental Funds	Total Governmental Fund
<u>Assets</u>						
Cash in County Treasury (Note 2)	\$ 2,055,134	\$ 5,615,037	\$ 55,911,262	\$ 44,976	\$ 4,967,397	\$ 68,593,806
Cash on Hand and in Banks (Note 2)	100,083				87,174	187,257
Cash in Revolving Fund (Note 2)	14,500				6,000	20,500
Cash with Fiscal Agent (Note 2)		21,909				21,909
Investments (Note 2)					68,310	68,310
Accounts Receivable (Note 4)	2,729,203	23,191	221,493	37,289	237,246	3,248,422
Due From Other Funds (Note 5)	198,649	16,636	1,088,278		43,690	1,347,253
Stores Inventories (Note 1H)	124,980				27,371	152,351
Prepaid Expenses (Note 1H)	386,078					386,078
Total Assets	<u>\$ 5,608,627</u>	<u>\$ 5,676,773</u>	<u>\$ 57,221,033</u>	<u>\$ 82,265</u>	<u>\$ 5,437,188</u>	<u>\$ 74,025,886</u>
<u>Liabilities and Fund Balances</u>						
Liabilities:						
Accounts Payable	\$ 1,939,821		\$ 17,791		\$ 185,603	\$ 2,143,215
Deferred Revenue (Note 1H)	631,905				82,997	714,902
Due to Other Funds (Note 5)	71,922	\$ 449,676	411,915	\$ 82,265	331,475	1,347,253
Total Liabilities	<u>2,643,648</u>	<u>449,676</u>	<u>429,706</u>	<u>82,265</u>	<u>600,075</u>	<u>4,205,370</u>
Fund Balances (Note 1H):						
Reserved	1,808,023				33,371	1,841,394
Designated	1,156,956				2,222,042	3,378,998
Undesignated		5,227,097	56,791,327		2,581,700	64,600,124
Total Fund Balances	<u>2,964,979</u>	<u>5,227,097</u>	<u>56,791,327</u>	<u>0</u>	<u>4,837,113</u>	<u>69,820,516</u>
Total Liabilities and Fund Balances	<u>\$ 5,608,627</u>	<u>\$ 5,676,773</u>	<u>\$ 57,221,033</u>	<u>\$ 82,265</u>	<u>\$ 5,437,188</u>	<u>\$ 74,025,886</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

MORGAN HILL UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
YEAR ENDED JUNE 30, 2003

Total fund balances - governmental funds	\$ 69,820,516
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Amounts reported for governmental activities in the
statement of net assets are different because:

Capital assets: In governmental funds, only current assets are reported. In the statement of net assets, all assets are reported, including capital assets \$130,447,093 and accumulated depreciation \$(13,178,940).	99,268,153
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Unmatured interest on long-term debt: In governmental funds, interest on long- term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unmaturred interest owing at the end of the period was:	(1,403,827)
-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-------------

Long-term liabilities are not due and payable in the current period and
therefore are not reported as liabilities in the funds. Long-term liabilities
at year-end consist of:

General obligation bonds payable	\$ 72,322,754	
Other post-employment benefits	3,231,737	
Compensated absences	298,514	
Capital leases payable	<u>10,906</u>	
		<u>(75,863,911)</u>

Total net assets-governmental activities	<u>\$ 91,820,931</u>
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THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

**MORGAN HILL UNIFIED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	General Fund	Capital Facilities	Building Fund	County School Facilities	Other Governmental Funds	Total Governmental Funds
REVENUES						
Revenue Limit Sources:						
State Apportionments	\$ 2,166,718				\$ 400,626	\$ 2,567,344
Local Sources	37,820,791					37,820,791
Total Revenue Limit	39,987,509				400,626	40,388,135
Federal Revenue	2,591,726				784,232	3,375,958
Other State Revenue	7,611,026		\$ 40,000	\$ 17,456,889	699,081	25,806,996
Other Local Revenue	4,893,853	\$ 1,832,763	1,139,963	82,267	6,023,048	13,971,894
Total Revenues	55,084,114	1,832,763	1,179,963	17,539,156	7,906,987	83,542,983
EXPENDITURES						
Certificated Salaries	30,424,324				307,179	30,731,503
Classified Salaries	8,225,011		221,028		834,646	9,280,685
Employee Benefits	8,063,512		50,097		355,525	8,469,134
Books and Supplies	2,701,324				1,104,180	3,805,504
Services and Other						
Operating Expenditures	5,126,691	60,618	172,125		577,867	5,937,301
Capital Outlay	29,084	10,771	20,172,333			20,212,188
Debt Service:						
Principal Retirement	37,455				175,000	212,455
Interest and Fiscal Charges	1,990				3,374,830	3,376,820
Other Outgo	1,418,449				152,803	1,571,252
Total Expenditures	56,027,840	71,389	20,615,583	0	6,882,030	83,596,842
Excess of Revenues Over (Under) Expenditures	(943,726)	1,761,374	(19,435,620)	17,539,156	1,024,957	(53,859)
Other Financing Sources (Uses):						
Operating Transfers In (Note 5)	306,264	16,636	17,895,724			18,218,624
Operating Transfers Out (Note 5)		(249,676)		(17,539,156)	(429,792)	(18,218,624)
Total Other Financing Sources (Uses)	306,264	(233,040)	17,895,724	(17,539,156)	(429,792)	0
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	(637,462)	1,528,334	(1,539,896)	0	595,165	(53,859)
Fund Balances - July 1, 2002	3,602,441	3,698,763	58,331,223	0	4,241,948	69,874,375
Fund Balances - June 30, 2003	\$ 2,964,979	\$ 5,227,097	\$ 56,791,327	\$ 0	\$ 4,837,113	\$ 69,820,516

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

MORGAN HILL UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2003

Net change in fund balances - Total governmental funds	\$ (53,859)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlay: In governmental funds, the cost of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is	
Expenditures for capital outlay:	\$ 20,639,500
Depreciation expense:	<u>(1,583,340)</u>
	19,056,160
Debt service: In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were:	
	212,455
Unmatured interest on long-term debt: In governmental funds interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period, was:	
	(1,403,827)
In the statement of activities, certain operating expenses, compensated absences and special termination benefits, are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. This year financial resources used for vacation exceeded vacation earned by \$88,422; other postemployment benefit earned exceeded the amount by \$2,146,172.	
	<u>(2,057,750)</u>
Total change in net assets-governmental activities	<u>\$ 15,753,179</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

MORGAN HILL UNIFIED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET (NON-GAAP) AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Budgeted Amounts			Variance with Final Budget Positive- (Negative)
	Original	Final	Actual (Budgetary Basis)	
REVENUES				
Revenue Limit Sources:				
State Apportionments	\$ 2,193,053	\$ 2,166,718	\$ 2,166,718	
Local Sources	37,812,409	37,820,791	37,820,791	
Total Revenue Limit	40,005,462	39,987,509	39,987,509	
Federal Revenue	2,144,701	2,912,015	2,591,726	\$ (320,289)
Other State Revenue	7,354,174	7,950,752	7,611,026	(339,726)
Other Local Revenue	4,012,233	4,893,017	4,893,853	836
Total Revenues	53,516,570	55,743,293	55,084,114	(659,179)
EXPENDITURES				
Certificated Salaries	29,483,486	30,542,156	30,424,324	117,832
Classified Salaries	8,171,876	8,271,396	8,225,011	46,385
Employee Benefits	8,580,214	8,236,211	8,063,512	172,699
Books and Supplies	2,007,144	4,698,753	2,701,324	1,997,429
Services and Other				
Operating Expenditures	4,259,840	5,300,682	5,126,691	173,991
Capital Outlay	348,635	40,869	29,084	11,785
Debt Service:				
Principal Retirement	37,455	37,455	37,455	
Interest and Fiscal Charges	1,990	1,990	1,990	
Other Outgo	638,239	1,263,434	1,418,449	(155,015)
Total Expenditures	53,528,879	58,392,946	56,027,840	2,365,106
Excess of Revenues Over (Under) Expenditures	(12,309)	(2,649,653)	(943,726)	1,705,927
Other Financing Sources (Uses):				
Operating Transfers In	72,300	328,371	306,264	(22,107)
Operating Transfers Out	(235,285)	(1,000)		1,000
Total Other Financing Sources (Uses)	(162,985)	327,371	306,264	(21,107)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(175,294)	(2,322,282)	(637,462)	1,684,820
Fund Balances - July 1, 2002	2,011,768	3,602,441	3,602,441	0
Fund Balances - June 30, 2003	\$ 1,836,474	\$ 1,280,159	\$ 2,964,979	\$ 1,684,820

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

MORGAN HILL UNIFIED SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2003

	Expendable Trust Scholarship Fund	Agency Fund	Total
<u>ASSETS</u>			
Cash on Hand and in Bank	\$ 9,261	\$ 365,294	\$ 374,555
Total Assets	<u>\$ 9,261</u>	<u>\$ 365,294</u>	<u>\$ 374,555</u>
<u>LIABILITIES</u>			
Liabilities:			
Due to Student Group		\$ 365,294	\$ 365,294
Total Liabilities	<u>\$ 0</u>	<u>\$ 365,294</u>	<u>\$ 365,294</u>
<u>NET ASSETS</u>			
Reserved for scholarships	\$ 9261	\$ 0	\$ 9,261
Total Net Assets	<u>\$ 9261</u>	<u>\$ 0</u>	<u>\$ 9,261</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

MORGAN HILL UNIFIED SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2003

	Expendable Trust Scholarship Fund
Additions	
Interest Income	\$ 9,697
Total Additions	9,697
Deductions	
Scholarships awarded	4,462
Change in net assets	5,235
Net assets - July 1, 2002	4,026
Net assets - June 30, 2003	\$ 9,261

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

NOTE 1- SUMMARY OF SIGNIFICANT 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 accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants.

A. Reporting Entity

The District includes all funds that are controlled by or dependent on the District's governing board for financial reporting purposes. The District has considered all potential component units in determining how to define the reporting entity, using criteria set forth in generally accepted accounting principles.

B. Implementation of New Accounting Pronouncements

For the year ended June 30, 2003, the District was required to adopt GASB Statement No. 34 (GASB 34), *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, GASB Statement No. 37 (GASB 37), *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*, and GASB Statement No. 38 (GASB 38), *Certain Financial Statement Note Disclosures*. GASB 34 significantly changes the way state and local governments report their financial information to the public. As a result of GASB 34, state and local governments are required to report financial information using both fund-based and government-wide financial statement presentations. Fund-based statements continue to use the modified accrual basis of accounting, but the government-wide statements uses full accrual basis of accounting. In addition to the change in the financial statement presentation, GASB 34 requires the reporting of capital assets and long-term obligations on the government-wide financial statements. The preparation of a Management Discussion and Analysis to clarify the District financial activities is also required by GASB 34. Furthermore, the District's notes to the financial statements incorporate modifications as required under GASB 38. The effect of implementing GASB 34 resulted in a conversion of fund balance to net assets for an increase of \$22,000,415, for net asset balance of \$91,820,931 at June 30, 2003 on the government-wide financial statements.

C. Basis of Presentation

Government-wide Financial Statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the District and its component units.

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation (Concluded)

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the fiduciary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the district's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the statement of activities. Program revenues include charges paid by the recipients of goods or services offered by a program, as well as grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements:

Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major governmental fund is presented in a separate column, and all non-major funds are aggregated into one column. Fiduciary funds are reported by fund type.

The accounting and financial treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current asset and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Fiduciary funds are reported using the economic resources measurement focus.

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds use the accrual basis of accounting.

Revenues - exchange and non-exchange transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, "available" means collectible within the current period or within 60 days after year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred revenue:

Deferred revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue. On governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have also been recorded as deferred revenue.

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Accounting (Concluded)

Expenses/expenditures:

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

E. Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered to be 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 or expenses, as appropriate. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The District's accounts are organized into major, non-major, and fiduciary funds as follows:

MAJOR GOVERNMENTAL FUNDS

1. 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.
2. Capital Facilities Fund is use to account for resources received from developer impact fees assessed under the provisions of the California Environmental Quality Act.
3. Building Fund is used to account for the acquisition of major governmental capital facilities and building from the sale of bond proceeds.
4. 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, 2003

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Fund Accounting (Continued)

NON-MAJOR GOVERNMENTAL FUNDS

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 non-major special revenue funds:

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

Debt Service Funds are used to account for the accumulation of resources for, and the payment of general long-term debt principal, interest and related costs. The District maintains two non-major 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. The indebtedness was fully paid in 2000-2002 and the fund was closed in 2002-2003 by a transfer to the Building Fund.
2. 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.

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Fund Accounting (Concluded)

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

1. Mello-Roos Fund is used to account for the accumulation of resources received from the Mello-Roos Assessment District.
2. Roof Replacement Fund is used to account for the proceeds from the State Lease-Purchase Roof Replacement program allocation and the District's match, and is used for roof replacement.

FIDUCIARY FUNDS:

Expendable Trust Funds are used to account for assets held by the District as trustee. The District maintains one 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, the high school and both middle schools.

The District maintains student body funds, which are used to account for the raising and expending of money to promote the general welfare, morale, and educational experience of the student body. The amounts reported for student body funds represent the combined totals of all schools within the District.

F. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. 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 Board of Trustees and District Superintendent during the year to give consideration to unanticipated income and expenditures. The original and final revised are presented for the General Fund 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 Bond Interest and Redemption Fund.

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. 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.

H. Assets, Liabilities and Equity

1. Deposits and Investments

Cash balances held in banks and in revolving funds are insured to \$100,000 by the Federal Deposit Insurance Corporation.

In accordance with *Education Code* Section 41001, the District maintains substantially all of its cash in the County Treasury. The county pools these funds with those of other districts in the county and invests the cash. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly into participating funds. Any investments losses are proportionately shared by all funds in the pool.

The county is authorized to deposit cash and invest excess funds by California *Government Code* Section 53648 et seq. The funds maintained by the county are either secured by federal depository insurance or are collateralized.

2. Stores Inventories and Prepaid Expenditures

Inventories are recorded using the consumption method, in that inventory acquisitions are initially recorded in inventory (asset) accounts, and are charged as expenditures when used. 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.

The District's central warehouse inventory and cafeteria inventory valuation is First-in-First-out (FIFO).

The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditure in the period it benefits.

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Assets, Liabilities and Equity (Continued)

3. Capital Assets

Capital assets purchased or acquired with an original cost of \$20,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

<u>Asset Class</u>	<u>Examples</u>	<u>Estimated Useful Life in Years</u>
Land		N/A
Site improvements	Paving, flagpoles, retaining walls, sidewalks, fencing, outdoor lighting	20
School buildings		50
Portable classrooms		25
HVAC systems	Heating, ventilation and air conditions systems	20
Roofing		20
Interior construction		25
Carpet replacement		7
Electrical/Plumbing		30
Sprinkler/fire system	Fire suppression systems	25
Outdoor equipment	Playground, radio towers, fuel tanks, pumps	20
Machinery & tools	Shop & maintenance equipment, tools	15
Kitchen equipment	Appliances	15
Custodial equipment	Floor scrubbers, vacuums, other	15
Science & engineering	Lab equipment, scientific apparatus	10
Furniture & accessories	Classroom & other furniture	20
Business machines	Fax, duplicating & printing equipment	10
Copiers		5
Communication equipment	Mobile, portable radios, non-computerized	10
Computer hardware	PCs, printers, network hardware	5
Computer software	Instructional, other short-term	5 to 10
Computer software	Administrative or long-term	10 to 20
Audio visual equipment	Projectors, cameras (still & digital)	10
Athletic equipment	Gymnastics, football, weight machines, wrestling mats	10
Musical instruments	Pianos, strings, brass, percussion	10
Library books	Collections	5 to 7
Licensed vehicles	Buses, other on-road vehicles	8
Contractors equipment	Major off-road vehicles, front-end loaders, large tractors, mobile air compressor	10
Grounds equipment	Mowers, tractors, attachments	15

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Assets, Liabilities and Equity (Continued)

4. Deferred Revenue

Cash received for federal and state special projects and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Deferred revenue is recorded to the extent that cash received on specific projects and programs exceeds qualified expenditures.

5. Compensated Absences

All vacation pay plus related payroll taxes is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Accumulated sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expense in the period taken, since such benefits do not vest, nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires.

6. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts as well as issuance costs are deferred and amortized over the life of the bonds using the effective-interest method. Bonds payable are reported net of applicable bond premium or discount. Bond issuance costs are reported as prepaid expenditures and amortized over the term of the related debt.

In the fund financial statements, governmental funds recognize bond premiums and discounts as well as bond issuance costs, during the current period. The face amount of the debt issued, premiums, or discounts is reported as other financing sources/uses.

7. Fund Balance Reserves and Designations

Reservations of the ending fund balance indicate the portions of fund balance not appropriate for expenditure or amounts legally segregated for a specific future use. The reserve for revolving fund and reserve for stores inventory reflects the portions of fund balance represented by revolving fund cash and stores inventory, respectively. These amounts are not available for appropriation and expenditure at the balance sheet date.

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

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

H. Assets, Liabilities and Equity (Concluded)

8. Revenue Limit/Property Tax

The District's revenue limit is received from a combination of local property taxes, state apportionments, and other local sources.

The county is responsible for assessing, collecting, and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the county. The levy is based on the assessed values as of the preceding March 1, which is also the lien date. Property taxes on the secured roll are due on November 1 and February 1, and taxes become delinquent after December 10 and April 10, respectively. Property taxes on the unsecured roll are due on the lien date (March 1), and become delinquent if unpaid by August 31.

Secured property taxes are recorded as revenue when apportioned, in the fiscal year of the levy. The county apportions secured property tax revenue in accordance with the alternate method of distribution prescribed by Section 4705 of the California *Revenue and Taxation Code*. This alternate method provides for crediting each applicable fund with its total secured taxes upon completion of the secured tax roll - approximately October 1 of each year.

The County Auditor reports the amount of the District's allocated property tax revenue to the California Department of Education. Property taxes are recorded as local revenue limit sources by the District.

The California Department of Education reduces the District's entitlement by the District local property tax revenue. The balance is paid from the state General Fund, and is known as the State Apportionment.

The District's Base Revenue Limit is the amount of general purpose tax revenue, per average daily attendance (ADA), that the District is entitled to by law. This amount is multiplied by the second period ADA to derive the District's total entitlement.

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

NOTE 2 - CASH AND INVESTMENTS

Cash on Hand, In Banks and in Revolving Fund

Cash balances on hand, in banks, and revolving funds are insured up to \$100,000 by the Federal Deposit Insurance Corporation (FDIC). These amounts are held within various financial institutions. As of June 30, 2003, the carrying amount of the District's accounts was \$582,313.

Cash in County Treasury

In accordance with *Education Code* Section 41001, the District maintains substantially all of its cash with the County Treasury as part of the common investment pool, which totaled \$68,593,806 as of June 30, 2003. The fair market value of this pool as of that date, as provided by the pool sponsor, was \$68,782,508. The District is considered to be an involuntary participant in the external investment pool. Interest is deposited into participating funds. The county is restricted by *Government Code* Section 53635, pursuant to Section 53601, to invest in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements.

A summary of deposits as of June 30, 2003, is as follows:

	Fair Market <u>Value</u>	Carrying <u>Amount</u>
Deposits:		
Cash in county treasury	\$68,593,806	\$68,593,806
Cash on hand and in bank	582,310	582,310
Cash with fiscal agent	<u>21,909</u>	<u>21,909</u>
Total	<u>\$69,198,025</u>	<u>\$69,198,025</u>

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

NOTE 2 - CASH AND INVESTMENTS (CONCLUDED)

Investments

The District directs the County Treasurer to invest excess funds in the Local Agency Investment Fund (LAIF). The fund is an investment pool managed by the California State Treasurer. The fair value of the LAIF account was obtained from the State Treasurer. The LAIF account is not subject to categorization.

Category 1: Insured or registered, or securities held by the District or its agent in the District's name.

Category 2: Uninsured and unregistered, with securities held by the counterparty's trust department or its agent in the District's name.

Category 3: Uninsured and unregistered, with securities held by the counterparty, its trust department or its agent, but not held in the District name.

Investments as of June 30, 2003, are presented below:

	<u>1</u>	<u>2</u>	<u>3</u>	<u>Uncategorized</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Local Agency Investment Fund	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$68,310</u>	<u>\$68,310</u>	<u>\$ 68,310</u>

NOTE 3 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

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

Major Funds:

General Fund

Other Outgo

\$155,015

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

NOTE 4 - ACCOUNTS RECEIVABLES

Accounts receivables at June 30, 2003 consist of the following:

	<u>General Fund</u>	<u>Capital Facilities</u>	<u>County School Facilities</u>	<u>Building Fund</u>	<u>All Other Governmental Funds</u>	<u>Total</u>
Federal Government						
Categorical Aid Program	\$ 638,603				\$165,710	\$ 804,313
State Government						
Categorical Aid Programs	537,150				35,974	573,124
Lottery	554,080					554,080
Other	<u>503,729</u>					<u>503,729</u>
Total State Government	1,594,959				35,974	1,630,933
Local Government	406,676				106	406,782
Interest	67,226	\$23,191	\$37,289	\$220,844	18,144	366,694
Miscellaneous	<u>21,739</u>			<u>649</u>	<u>17,312</u>	<u>39,700</u>
Total Accounts Receivable	<u>\$ 2,729,203</u>	<u>\$23,191</u>	<u>\$37,289</u>	<u>\$221,493</u>	<u>\$237,246</u>	<u>\$3,248,422</u>

NOTE 5 - INTERFUND TRANSACTIONS

Interfund transactions are reported as either loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables, as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers among governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

NOTE 5 - INTERFUND TRANSACTIONS (CONCLUDED)

Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving revenue to funds through which the resources are to be expended. Interfund transfers for the 2002-2003 fiscal year were as follows:

<u>Funds</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 306,264	
County School Facilities		\$17,539,156
Capital Facilities Fund	16,636	249,676
Building Fund	17,895,724	
All Other Funds:		
Special Reserve Fund		250,000
Cafeteria Fund		6,071
Adult Education Fund		16,636
Tax Override Fund		317
Roof Replacement Fund		433
Mello-Roos Fund		<u>156,335</u>
Total	<u>\$18,218,624</u>	<u>\$18,218,624</u>

Interfund Receivables/Payables (Due From/Due To)

Individual fund interfund receivable and payable balances at June 30, 2003 are as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 198,649	\$ 71,922
County School Facilities Fund		82,265
Capital Facilities Fund	16,636	449,676
Building Fund	1,088,278	411,915
Non Major Governmental Funds	<u>43,690</u>	<u>331,475</u>
Totals	<u>\$1,347,253</u>	<u>\$1,347,253</u>

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

NOTE 6 - CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2003, is shown below:

	Balance July 1, 2002	Additions	Deductions	Balance June 30, 2003
Capital assets, not being depreciated:				
Land	\$ 724,021			\$ 724,021
Work in progress	<u>36,122,318</u>	<u>\$20,615,585</u>		<u>56,737,903</u>
Total capital assets, not being depreciated	<u>36,846,339</u>	<u>20,615,585</u>	<u>\$ 0</u>	<u>57,461,924</u>
Capital assets being depreciated:				
Improvements of sites	69,824,952			69,824,952
Equipment	<u>3,136,302</u>	<u>23,915</u>		<u>3,160,217</u>
Total capital assets, being depreciated	<u>72,961,254</u>	<u>23,915</u>	<u>0</u>	<u>72,985,169</u>
Less accumulated depreciation for:				
Buildings & Improvements	27,377,665	1,424,895		28,802,560
Improvements of sites	<u>2,217,935</u>	<u>158,445</u>		<u>2,376,380</u>
Total accumulated depreciation	<u>29,595,600</u>	<u>(1,583,340)</u>	<u>0</u>	<u>31,178,940</u>
Total capital assets, being depreciated, net	<u>43,365,654</u>	<u>(1,559,425)</u>	<u>0</u>	<u>41,806,229</u>
Governmental activities capital assets, net	<u>\$80,211,993</u>	<u>\$19,056,160</u>	<u>\$ 0</u>	<u>\$99,268,153</u>

NOTE 7 - GENERAL OBLIGATION BONDS

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 Morgan Hill Unified School District General Obligation Bonds, Series 2002 (the "Series 2002 Bonds"), in the aggregate principal amount of \$34,497,753.80 were issued by the County of Santa Clara on behalf of the District to finance the construction of new high school, renovations to the existing Live Oak High School, and the construction of a new elementary school.

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

NOTE 7 – GENERAL OBLIGATION BONDS (CONCLUDED)

The 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, 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, 2003 is:

<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Outstanding July 1, 2002</u>	<u>Issued Current Year</u>	<u>Redeemed Current Year</u>	<u>Outstanding June 30, 2003</u>
2000	4.6%-5.5%	2021	\$38,000,000	\$38,000,000	\$ 0	\$175,000	\$37,825,000
2002	3.5%-5.6%	2026	<u>34,497,754</u>	<u>34,497,754</u>		<u>0</u>	<u>34,497,754</u>
			<u>\$72,497,754</u>	<u>\$72,497,754</u>	<u>\$ 0</u>	<u>\$175,000</u>	<u>\$72,322,754</u>

The annual requirements to amortize general obligation bonds payable, outstanding as of June 30, 2003, are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 245,000	\$ 3,363,550	\$ 3,608,550
2005	1,030,000	3,338,131	4,368,131
2006	1,185,000	3,295,436	4,480,436
2007	1,355,000	3,246,172	4,601,172
2008	1,535,000	3,189,823	4,724,823
2009-2013	10,890,000	14,680,665	25,570,665
2014-2018	17,855,000	11,268,154	29,123,154
2019-2023	23,368,375	17,443,128	40,811,503
2024-2026	<u>14,859,379</u>	<u>3,686,813</u>	<u>18,546,192</u>
Totals	<u>\$72,322,754</u>	<u>\$63,511,870</u>	<u>\$135,834,624</u>

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

NOTE 8 – 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 June 30,</u>	<u>Lease Payment</u>
2004	\$ 10,863
2005	<u>1,147</u>
Total	12,010
Less portion representing interest	<u>(1,104)</u>
Present value of net minimum lease payments	<u>\$ 10,906</u>

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

NOTE 9 – LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 2003 is shown below:

	<u>Balance July 1, 2002</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2003</u>	<u>Due Within One Year</u>
General Obligation Bonds	\$72,497,754		\$ 175,000	\$72,322,754	\$ 245,000
Other Post Employment Benefits	1,085,565	\$ 2,146,172		3,231,737	830,741
Compensated Absences	386,936		88,422	298,514	298,514
Capital Lease Obligations	<u>48,361</u>		<u>37,455</u>	<u>10,906</u>	<u>9,802</u>
Totals	<u>\$74,018,616</u>	<u>\$ 2,146,172</u>	<u>\$ 300,877</u>	<u>\$75,863,911</u>	<u>\$1,384,057</u>

The accrued vacation, capital lease obligations and other post employment benefits will be paid by the General Fund. Payments on the general obligation bonds are made by the Bond Interest and Redemption Fund with local revenues.

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

NOTE 10 - OTHER POST EMPLOYMENT BENEFITS

The District provides an early retirement plan whereby the District will continue retirees' health benefits until age 65 for individuals that qualify. To qualify for the plan, certificated and administrative employees must be at least 55 years old and classified employees must be at least 50 years old and have been an employee of the District for ten continuous years immediately proceeding retirement. Under this plan, the District has agreed to continue to provide these benefits without any additional performance from the retirees. On June 30, 2003, 98 retirees met these eligibility requirements at a cost of \$371,200 for 2002-2003. The District records the cost for postemployment health benefits when there is a cash outlay (the pay-as-you-go method) rather than when they are earned by active employees (the actuarial method). The estimated cost based upon current participants is \$1,735,109. If the costs were recognized by the actuarial method, they would be significantly greater.

In addition to the benefits described above, certain qualified retirees are included in the single premium annuity contract with the Principal Life Insurance Company. The total cost to the District for the contract (\$1,870,785) is payable in five annual payments of \$374,157 beginning in 2002-2003. There are currently 34 retirees identified as qualified to receive benefits under this plan.

NOTE 11 - EMPLOYEE RETIREMENT SYSTEMS

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

Plan Description and Provisions

State Teachers' Retirement System (STRS)

Plan Description. The Morgan Hill Unified School District contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability, and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from the STRS, 7667 Folsom Boulevard, Sacramento, California 95826.

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

NOTE 11 – EMPLOYEE RETIREMENT SYSTEMS (CONCLUDED)

State Teachers' Retirement System (STRS) (Concluded)

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 2002-2003 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, 2003, 2002, and 2001 were \$2,568,240, \$2,457,942 and \$2,425,829, 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.

Funding Policy. Active plan members are required to contribute 7.0% 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 CalPERS Board of Administration. The required employer contribution rate for fiscal 2002-2003 was 2.894% 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, 2003, 2002 and 2001 were \$231,370, \$518,093, and \$467,699 respectively and equal 100% of the required contributions for each year.

NOTE 12 - STUDENT BODY FUND

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

MORGAN HILL UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

NOTE 13 – 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. If the review or audit discloses exceptions, the District may incur a liability to grantor agencies.

NOTE 14 – JOINT VENTURES

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

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

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.

NOTE 15 – SUBSEQUENT EVENTS

Tax Revenue Anticipation Notes

On July 3, 2003, the District issued \$9,915,000 in tax revenue anticipation notes at a premium of \$99,249. The TRANS are a general obligation of the District and are payable from revenues and cash receipts to be generated by the District. There are no contractual obligations related to the issuance other than the TRANS agreement. The notes mature on July 6, 2004 and bear interest at .90%. Proceeds from the notes can be drawn upon during the year if cash shortages arise.

MORGAN HILL UNIFIED SCHOOL DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR SPECIAL REVENUE FUNDS
JUNE 30, 2003

	Deferred Maintenance	Cafeteria	Adult Education	Child Development	Special Reserve	Totals
ASSETS						
Cash in County Treasury	\$ 492,865	\$ 224,634	\$ 134,313	\$ 110,345	\$ 569,537	\$ 1,531,694
Cash on Hand and in Bank		71,982	6,811			78,793
Cash in Revolving Fund		1,000	5,000			6,000
Investments		68,310				68,310
Accounts Receivable						
Federal Government		121,956	16,886	26,868		165,710
State Government		8,360	27,614			35,974
Local Governments		106				106
Interest	3,142	594	4,150		3,440	11,326
Due from Other Funds			43,690			43,690
Stores Inventory		27,371				27,371
Total Assets	<u>\$ 496,007</u>	<u>\$ 524,313</u>	<u>\$ 238,464</u>	<u>\$ 137,213</u>	<u>\$ 572,977</u>	<u>\$ 1,968,974</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts Payable	\$ 237	\$ 29,448	\$ 24,351	\$ 131,567		\$ 185,603
Due to Other Funds		141,401	28,091	5,646		175,138
Deferred Revenue			82,997			82,997
Total Liabilities	<u>237</u>	<u>170,849</u>	<u>135,439</u>	<u>137,213</u>		<u>443,738</u>
Fund Balances:						
Reserved		28,371	5,000			33,371
Unreserved						
Designated			19,986			19,986
Undesignated	495,770	325,093	78,039		\$ 572,977	1,471,879
Total Fund Balances	<u>495,770</u>	<u>353,464</u>	<u>103,025</u>	<u>0</u>	<u>572,977</u>	<u>1,525,236</u>
Total Liabilities and Fund Balances	<u>\$ 496,007</u>	<u>\$ 524,313</u>	<u>\$ 238,464</u>	<u>\$ 137,213</u>	<u>\$ 572,977</u>	<u>\$ 1,968,974</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
NON-MAJOR SPECIAL REVENUE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Deferred Maintenance	Cafeteria	Adult Education	Child Development	Special Reserve	Totals
REVENUES						
Revenue Limit Sources:						
State Apportionment			\$ 400,626			\$ 400,626
Federal Sources:						
Child Nutrition Program		\$ 735,098				735,098
Other			43,362	\$ 5,772		49,134
Other State Sources:						
State Nutrition Program		50,595				50,595
Other	\$ 32,638		109,440	462,501		604,579
Other Local Sources:						
Food Service Sales		1,160,783				1,160,783
Interest	13,211	4,770	8,356	4,234	\$ 18,396	48,967
Other			59,647			59,647
Total Revenues	45,849	1,951,246	621,431	472,507	18,396	3,109,429
EXPENDITURES						
Certificated Salaries			307,179			307,179
Classified Salaries	90,728	592,618	151,300			834,646
Employee Benefits	37,527	229,108	88,890			355,525
Books and Supplies	17,644	1,053,228	33,630			1,104,502
Services and Other						
Operating Expenditures	29,440	58,998	38,706	448,384		575,528
Other Outgo		98,825	29,855	24,123		152,803
Total Expenditures	175,339	2,032,777	649,560	472,507	0	3,330,183
Excess of Revenues Over (Under) Expenditures	(129,490)	(81,531)	(28,129)	0	18,396	(220,754)
Other Financing Sources (Uses):						
Operating Transfers Out	0	(6,071)	(16,636)	0	(250,000)	(272,707)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(129,490)	(87,602)	(44,765)	0	(231,604)	(493,461)
Fund Balances - July 1, 2002	625,260	441,066	147,790	0	804,581	2,018,697
Fund Balances - June 30, 2003	\$ 495,770	\$ 353,464	\$ 103,025	\$ 0	\$ 572,977	\$ 1,525,236

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
 NON-MAJOR SPECIAL REVENUE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	DEFERRED MAINTENANCE		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Other State Revenue	\$ 304,386	\$ 32,638	\$ (271,748)
Interest Income	20,000	13,211	(6,789)
Total Revenues	324,386	45,849	(278,537)
EXPENDITURES			
Classified Salaries	100,539	90,728	9,811
Employee Benefits	41,203	37,527	3,676
Books and Supplies	63,500	17,644	45,856
Services and Other			
Operating Expenditures	29,440	29,440	
Capital Outlay	1,755		1,755
Total Expenditures	236,437	175,339	61,098
Excess of Revenues			
Over (Under) Expenditures	\$ 87,949	(129,490)	\$ (217,439)
Fund Balance - July 1, 2002		625,260	
Fund Balance - June 30, 2003		\$ 495,770	

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
NON-MAJOR SPECIAL REVENUE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	CAFETERIA		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Federal Revenue	\$ 735,098	\$ 735,098	
Other State Revenue	50,595	50,595	
Other Local Revenue	1,158,161	1,160,783	\$ 2,622
Interest Income	4,770	4,770	
Total Revenues	1,948,624	1,951,246	2,622
EXPENDITURES			
Classified Salaries	592,618	592,618	
Employee Benefits	229,112	229,108	4
Books and Supplies	1,053,228	1,053,228	
Services and Other			
Operating Expenditures	58,998	58,998	
Other Outgo	98,825	98,825	
Total Expenditures	2,032,781	2,032,777	4
Excess of Revenues Over (Under) Expenditures	(84,157)	(81,531)	2,626
Other Financing Sources (Uses): Operating Transfers Out	(6,071)	(6,071)	
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ (90,228)	(87,602)	\$ 2,626
Fund Balance - July 1, 2002		441,066	
Fund Balance - June 30, 2003		\$ 353,464	

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
NON-MAJOR SPECIAL REVENUE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	ADULT EDUCATION		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Revenue Limit Sources:			
State Apportionments	\$ 403,352	\$ 400,626	\$ (2,726)
Federal Revenue	63,683	43,362	(20,321)
Other State Revenue	202,635	109,440	(93,195)
Other Local Revenue	59,838	59,647	(191)
Interest Income	8,356	8,356	
Total Revenues	737,864	621,431	(116,433)
EXPENDITURES			
Certificated Salaries	311,325	307,179	4,146
Classified Salaries	167,633	151,300	16,333
Employee Benefits	92,726	88,890	3,836
Books and Supplies	117,198	33,630	83,568
Services and Other			
Operating Expenditures	46,628	38,706	7,922
Other Outgo	31,792	29,855	1,937
Total Expenditures	767,302	649,560	117,742
Excess of Revenues Over (Under) Expenditures	(29,438)	(28,129)	1,309
Other Financing Sources (Uses):			
Operating Transfers Out	(16,636)	(16,636)	
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ (46,074)	(44,765)	\$ 1,309
Fund Balance - July 1, 2002		147,790	
Fund Balance - June 30, 2003		\$ 103,025	

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
NON-MAJOR SPECIAL REVENUE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	CHILD DEVELOPMENT		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Federal Revenue	\$ 5,772	\$ 5,772	
Other State Revenue	529,578	462,501	\$ (67,077)
Interest Income	7,015	4,234	(2,781)
Total Revenues	542,365	472,507	(69,858)
EXPENDITURES			
Services and Other			
Operating Expenditures	514,995	448,384	66,611
Other Outgo	27,370	24,123	3,247
Total Expenditures	542,365	472,507	69,858
Excess of Revenues Over Expenditures	\$ 0	0	\$ 0
Fund Balance - July 1, 2002		0	
Fund Balance - June 30, 2003		\$ 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
 NON-MAJOR SPECIAL REVENUE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	SPECIAL RESERVE		Variance Favorable (Unfavorable)
	Budget	Actual	
REVENUES			
Interest Income	\$ 20,000	\$ 18,396	\$ (1,604)
Other Financing Sources (Uses):			
Operating Transfers Out	(250,000)	(250,000)	0
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>\$ (230,000)</u>	<u>(231,604)</u>	<u>\$ (1,604)</u>
Fund Balance - July 1, 2002		<u>804,581</u>	
Fund Balance - June 30, 2003		<u>\$ 572,977</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
NON-MAJOR SPECIAL REVENUE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	TOTAL SPECIAL REVENUE FUNDS		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Revenue Limit Sources:			
State Apportionments	\$ 2,596,405	\$ 400,626	\$ (2,195,779)
Federal Revenue	804,553	784,232	(20,321)
Other State Revenue	1,087,194	655,174	(432,020)
Other Local Revenue	1,217,999	1,220,430	2,431
Interest Income	60,141	48,967	(11,174)
Total Revenues	5,766,292	3,109,429	(2,656,863)
EXPENDITURES			
Certificated Salaries	311,325	307,179	4,146
Classified Salaries	860,790	834,646	26,144
Employee Benefits	363,041	355,525	7,516
Books and Supplies	1,233,926	1,104,502	129,424
Services and Other			
Operating Expenditures	650,061	575,528	74,533
Capital Outlay	1,755		1,755
Other Outgo	157,987	152,803	5,184
Total Expenditures	3,578,885	3,330,183	248,702
Excess of Revenues Over (Under) Expenditures	2,187,407	(220,754)	(2,408,161)
Other Financing Sources (Uses):			
Operating Transfers Out	(272,707)	(272,707)	
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 1,914,700	(493,461)	\$ (2,408,161)
Fund Balance - July 1, 2002		2,018,697	
Fund Balance - June 30, 2003		\$ 1,525,236	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

MORGAN HILL UNIFIED SCHOOL DISTRICT
BALANCE SHEET
NON-MAJOR DEBT SERVICE FUNDS
JUNE 30, 2003

	<u>Bond Interest and Redemption</u>
<u>ASSETS</u>	
Cash in County Treasury	\$ 2,182,632
Accounts Receivable	
Interest	2,112
Miscellaneous	<u>17,312</u>
Total Assets	<u>\$ 2,202,056</u>
<u>LIABILITIES AND FUND BALANCES</u>	
Fund Balances:	
Unreserved	
Designated	<u>\$ 2,202,056</u>
Total Liabilities and Fund Balances	<u>\$ 2,202,056</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
NON-MAJOR DEBT SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Tax Override	Bond Interest and Redemption	Totals
REVENUES			
Other State Sources:			
Other	\$ 317	\$ 43,590	\$ 43,907
Local Sources:			
Interest		12,006	12,006
Other		4,198,533	4,198,533
Total Revenues	317	4,254,129	4,254,446
EXPENDITURES			
Debt Service:			
Principal Retirement		175,000	175,000
Interest and Fiscal Charges		3,374,830	3,374,830
Total Expenditures		3,549,830	3,549,830
Excess of Revenues Over (Under) Expenditures	317	704,299	704,616
Other Financing Sources (Uses):			
Operating Transfers Out	(317)		(317)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	0	704,299	704,299
Fund Balances - July 1, 2002	0	1,497,757	1,497,757
Fund Balances - June 30, 2003	\$ 0	\$ 2,202,056	\$ 2,202,056

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
 NON-MAJOR DEBT SERVICE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	BOND INTEREST AND REDEMPTION		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Other State Revenue	\$ 43,090	\$ 43,590	\$ 500
Other Local Revenue	3,926,956	4,198,533	271,577
Interest Income	12,000	12,006	6
Total Revenues	3,982,046	4,254,129	272,083
EXPENDITURES			
Debt Service:			
Principal Retirement	175,000	175,000	
Interest and Fiscal Charges	3,375,210	3,374,830	380
Total Expenditures	3,550,210	3,549,830	380
Excess of Revenues Over Expenditures	<u>\$ 431,836</u>	704,299	<u>\$ 272,463</u>
Fund Balance - July 1, 2002		<u>1,497,757</u>	
Fund Balance - June 30, 2003		<u>\$ 2,202,056</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
NON-MAJOR DEBT SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	TOTAL DEBT SERVICE FUNDS		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Other State Revenue	\$ 43,090	\$ 43,907	\$ 817
Other Local Revenue	3,926,956	4,198,533	271,577
Interest Income	12,000	12,006	6
Total Revenues	3,982,046	4,254,446	272,400
EXPENDITURES			
Debt Service:			
Principal Retirement	175,000	175,000	
Interest and Fiscal Charges	3,375,210	3,374,830	380
Total Expenditures	3,550,210	3,549,830	380
Excess of Revenues Over Expenditures	431,836	704,616	272,780
Other Financing Sources (Uses): Operating Transfers Out		(317)	(317)
Excess of Revenues and Other Sources Over Expenditures and Other Uses	\$ 431,836	704,299	\$ 272,463
Fund Balance - July 1, 2002		1,497,757	
Fund Balance - June 30, 2003		\$ 2,202,056	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

MORGAN HILL UNIFIED SCHOOL DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR CAPITAL PROJECTS FUNDS
JUNE 30, 2003

	<u>Mello Roos</u>	<u>Roof Replacement</u>	<u>Totals</u>
<u>ASSETS</u>			
Cash in County Treasury	\$ 1,253,071		\$ 1,253,071
Cash on Hand in Bank	8,381		8,381
Accounts Receivable			
Interest	4,704	\$ 2	4,706
Total Assets	\$ 1,266,156	\$ 2	\$ 1,266,158
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Due to Other Funds	\$ 156,335	\$ 2	\$ 156,337
Fund Balances:			
Unreserved			
Undesignated	1,109,821	0	1,109,821
Total Liabilities and Fund Balances	\$ 1,266,156	\$ 2	\$ 1,266,158

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
NON-MAJOR CAPITAL PROJECTS FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>Mello Roos</u>	<u>Roof Replacement</u>	<u>Totals</u>
REVENUES			
Local Sources:			
Interest	\$ 20,040	\$ 8	\$ 20,048
Other	523,064		523,064
Total Revenues	543,104	8	543,112
EXPENDITURES			
Books and Supplies		(322)	(322)
Services and Other			
Operating Expenditures	2,339		2,339
Total Expenditures	2,339	(322)	2,017
Excess of Revenues Over (Under) Expenditures	540,765	330	541,095
Other Financing Sources (Uses):			
Operating Transfers Out	(156,335)	(433)	(156,768)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	384,430	(103)	384,327
Fund Balances - July 1, 2002	725,391	103	725,494
Fund Balances - June 30, 2003	\$ 1,109,821	\$ 0	\$ 1,109,821

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
 NON-MAJOR CAPITAL PROJECTS FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	MELLO ROOS		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Other Local Revenue	\$ 1,086,070	\$ 523,064	\$ (563,006)
Interest Income	30,041	20,040	(10,001)
Total Revenues	1,116,111	543,104	(573,007)
EXPENDITURES			
Services and Other Operating Expenditures	167,339	2,339	165,000
Excess of Revenues Over (Under) Expenditures	948,772	540,765	(408,007)
Other Financing Sources (Uses): Operating Transfers Out	(156,335)	(156,335)	0
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 792,437	384,430	\$ (408,007)
Fund Balance - July 1, 2002		725,391	
Fund Balance - June 30, 2003		\$ 1,109,821	

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
NON-MAJOR CAPITAL PROJECTS FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	ROOF REPLACEMENT		
	Budget	Actual	Variance Favorable (Unfavorable)
<u>REVENUES</u>			
Interest Income	\$ 8	\$ 8	
<u>EXPENDITURES</u>			
Books and Supplies	(322)	(322)	
Excess of Revenues Over Expenditures	330	330	\$ 0
Other Financing Sources (Uses): Operating Transfers Out	(433)	(433)	
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>\$ (103)</u>	<u>(103)</u>	<u>\$ 0</u>
Fund Balance - July 1, 2002		103	
Fund Balance - June 30, 2003		<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
NON-MAJOR CAPITAL PROJECTS FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	TOTAL CAPITAL PROJECTS FUNDS		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Other Local Revenue	\$ 1,086,070	\$ 523,064	\$ (563,006)
Interest Income	30,049	20,048	(10,001)
Total Revenues	1,116,119	543,112	(573,007)
EXPENDITURES			
Books and Supplies	(322)	(322)	
Services and Other Operating Expenditures	167,339	2,339	165,000
Total Expenditures	167,017	2,017	165,000
Excess of Revenues Over Expenditures	949,102	541,095	(408,007)
Other Financing Sources (Uses): Operating Transfers Out	(156,768)	(156,768)	0
Excess of Revenues and Other Sources Over Expenditures and Other Uses	\$ 792,334	384,327	\$ (408,007)
Fund Balance - July 1, 2002		725,494	
Fund Balance - June 30, 2003		\$ 1,109,821	

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, 2003

	<u>Balance</u> <u>July 1, 2002</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2003</u>
<u>LIVE OAK HIGH SCHOOL</u>				
<u>ASSETS</u>				
Cash	<u>\$ 311,489</u>	<u>\$613,336</u>	<u>\$636,836</u>	<u>\$ 287,979</u>
<u>LIABILITIES</u>				
Due to Student Groups	<u>\$ 311,489</u>	<u>\$613,336</u>	<u>\$636,836</u>	<u>\$ 287,979</u>
<u>MARTIN MURPHY MIDDLE SCHOOL</u>				
<u>ASSETS</u>				
Cash	<u>\$ 17,807</u>	<u>\$129,542</u>	<u>\$118,734</u>	<u>\$ 28,615</u>
<u>LIABILITIES</u>				
Due to Student Groups	<u>\$ 17,807</u>	<u>\$129,542</u>	<u>\$118,734</u>	<u>\$ 28,615</u>
<u>BRITTON MIDDLE SCHOOL</u>				
<u>ASSETS</u>				
Cash	<u>\$ 47,342</u>	<u>\$214,546</u>	<u>\$213,198</u>	<u>\$ 48,690</u>
<u>LIABILITIES</u>				
Due to Student Groups	<u>\$ 47,342</u>	<u>\$214,546</u>	<u>\$213,198</u>	<u>\$ 48,690</u>
<u>TOTAL – ALL AGENCY FUNDS</u>				
<u>ASSETS</u>				
Cash	<u>\$ 376,638</u>	<u>\$957,424</u>	<u>\$968,768</u>	<u>\$ 365,294</u>
<u>LIABILITIES</u>				
Due to Student Groups	<u>\$ 376,638</u>	<u>\$957,424</u>	<u>\$968,768</u>	<u>\$ 365,294</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE STATEMENTS

SUPPLEMENTARY INFORMATION

MORGAN HILL UNIFIED SCHOOL DISTRICT

MORGAN HILL, CALIFORNIA

JUNE 30, 2003

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 ten elementary school, two middle schools, one regular and one continuation high school, and a community adult education school.

The Board of Trustees for the year ended June 30, 2003, was composed of the following members:

Board of Education

<u>Name</u>	<u>Office</u>	<u>Term expires</u>
Tom Kinoshita	President	December 2006
George Panos	Vice President	December 2004
Michael J. Hickey	Member	December 2006
Amina Khemici	Member	December 2006
Jan Masuda	Member	December 2004
Shellé Thomas	Member	December 2006
J.C. Foster	Member	December 2004

ADMINISTRATION

Carolyn McKennan, Ed.D.
Superintendent

MORGAN HILL UNIFIED SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>Second Period Report</u>	<u>Annual Report</u>
<u>Elementary</u>		
Kindergarten	589	589
First through Third	1,885	1,887
Fourth through Sixth	1,881	1,883
Seventh through Eighth	1,224	1,223
Opportunity Schools	4	4
Special Education	119	120
Extended year	<u>5</u>	<u>5</u>
Subtotals	<u>5,707</u>	<u>5,711</u>
<u>Secondary</u>		
Regular Classes	2,137	2,131
Special Education	57	57
Compulsory Continuation Education	89	89
Opportunity Schools	4	4
Extended Year	<u>1</u>	<u>1</u>
Subtotals	<u>2,288</u>	<u>2,282</u>
<u>Classes for Adults</u>		
Concurrently Enrolled	10	10
Not concurrently Enrolled	<u>190</u>	<u>190</u>
Totals	<u>8,195</u>	<u>8,193</u>
	<u>Hours of Attendance</u>	
<u>Summer School</u>		
Elementary	72,514	72,503
High School	<u>53,408</u>	<u>54,369</u>
Totals	<u>125,922</u>	<u>126,872</u>

Average daily attendance is a measurement of the numbers of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of state funds are made to the school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

MORGAN HILL UNIFIED SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME OFFERED
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

<u>Grade Level</u>	<u>1986-87 Minutes Requirement</u>	<u>1982-83 Actual Minutes</u>	<u>2002-2003 Actual Minutes</u>	<u>2002-2003 Time Goal Average</u>	<u>2002-2003 Average of Actual Time</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
Kindergarten	36,000	31,680	36,000	N/A	N/A	180	In compliance
Grades 1 through 3	50,400	48,130	51,025	N/A	N/A	180	In compliance
Grades 4 through 6	54,000	51,920	54,052	N/A	N/A	180	In compliance
Grades 7 through 8	54,000	55,715	64,808	58,743	64,450	180	*In compliance
Grade 9	64,800	55,715	64,450	58,743	64,450	180	*In compliance
Grades 10 through 12	64,800	60,849	64,888	N/A	N/A	180	In compliance

* The weighted average method was used to meet compliance requirements.

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 instruction time offered by the District and whether the District complied with the provisions of *Education Code* Sections 46200 through 46206.

Districts must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirements, whichever is greater, as required by *Education Code* Section 46201.

SEE NOTES TO SUPPLEMENTARY INFORMATION

MORGAN HILL UNIFIED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

<u>Program Name:</u>	<u>Federal Number</u>	<u>Pass-Through Entity Number</u>	<u>Expenditures</u>
Federal:			
US Department of Agriculture:			
Passed through the California			
Department of Education (CDE):			
National School Lunch	10.555	13524	\$ 520,820
Especially Needy Breakfast	10.553	13526	155,368
Basic School Breakfast	10.553	13525	<u>58,910</u>
Total US Department of Education			<u>735,098</u>
US Department of Education:			
Passed through CDE:			
NCLB- Title I	84.010	14329	635,796
Title I Even Start	84.213	14331	24,410
IASA - Title II Eisenhower	84.281A	13207	11,133
NCLB - Title II, Part A Improving Teacher Quality	84.367	14341	259,503
NCLB - Title III, Limited English Proficiency	84.365	10084	77,792
NCLB - Title IV - Drug Free Schools and			
Communities Act of 1986	84.186	14347	42,084
NCLB - Title VI - Innovative Strategies	84.298A	14354	47,389
IASA - Title VI - Class Size Reduction	84.340	13073	2,213
Special Education			
IDEA Preschool Grant Local Staff Development	84.173	13430	356
IDEA Local Staff Development	84.027A	13613	32,244
Local Assistance	84.027	13379	4,911
Low Incidence	84.027	13705	56,191
PL 94-142	84.048A	13459	929,508
Preschool Staff Development	84.173A	13431	31,222
Workforce Investment Act	84.365	1005	4,941
Adult Education			
Adult Basic Education	84.002A	14302	19,626
Adult Education: Priority 5	84.002A	13978	15,900
Vocational Programs	84.048	3578	2,895
Vocational Education Act	84.048	03577	45,952
NCLB - Migrant Education	84.011	14326	224,254
IASA - Migrant Summer School	84.011	10005	42,259
School Renovation Classroom Technology	84.352A	14318	121,766
Medi-Cal Billing Option	93.778	10013	2,742
Child Dev. - School Age Resource	93.575	13941	<u>5,773</u>
Total US Department of Education			<u>2,640,860</u>
Total Federal Programs			<u>\$ 3,375,958</u>

SEE NOTES TO SUPPLEMENTARY INFORMATION

MORGAN HILL UNIFIED SCHOOL DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET
REPORT WITH AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Schedule of Long-Term <u>Liabilities</u>
June 30, 2003 Annual Financial and Budget Report Total Liabilities	<u>\$72,762,931</u>
Adjustments and Reclassifications:	
Increase (Decrease) in Total Liabilities:	
Overstatement of Capital Leases Obligations	(130,757)
Understatement of Other Post Employment Benefits	<u>3,231,737</u>
Net Adjustments and Reclassifications	<u>3,100,980</u>
June 30, 2003, Audited Financial Statement General Long-Term Debt Total Liabilities	<u>\$75,863,911</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, 2003.

SEE NOTES TO SUPPLEMENTARY INFORMATION

MORGAN HILL UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	(Budget) 2003-2004	2002-2003	2001-2002	2000-2001
<u>General Fund</u>				
Revenues and Other Financial Sources	\$ 51,306,126	\$ 55,390,378	\$ 56,115,405	\$ 55,262,284
Expenditures	51,124,446	56,027,840	57,236,363	54,798,660
Other Uses and Transfers Out	0	0	152,792	20,850
Total Outgo	51,124,446	56,027,840	57,389,155	54,819,510
Change in Fund Balance (Deficit)	181,680	(637,462)	(1,273,750)	442,774
Ending Fund Balance	\$ 3,146,658	\$ 2,964,979	\$ 3,602,441	\$ 4,876,191
Available Reserves	\$ 1,121,232	\$ 1,072,805	\$ 1,726,170	\$ 2,080,994
Designated for Economic Uncertainties	\$ 1,121,232	\$ 1,072,805	\$ 1,716,423	\$ 1,640,110
Undesignated Fund Balance	\$ 0	\$ 0	\$ 9,747	\$ 440,884
Available reserves as a percentage of total outgo	2.2%	1.9%	3%	3.8%
Total long-term debt	\$ 75,863,911	\$ 75,863,911	\$ 74,018,616	\$ 38,321,042
Average daily attendance at P-2 (excluding Adult Education)	7,995	7,995	8,177	8,493

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

Available reserves includes General Fund designated for economic uncertainty and General Fund unrestricted, undesignated fund balance. The general fund balance has decreased by \$1,468,438 (33%) over the past three years. The fiscal year 2003-2004 budget projects a increase of \$181,680 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. However, the District may use up to 50 percent of its reserve for economic uncertainties for 2002-2003 to provide local budgeting flexibility as a result of mid-year 2002-2003 budget reductions.

Total long-term debt has increased by \$37,542,869 over the past two years. Total average daily attendance has decreased 498 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, 2003

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 and number of days offered by the District complied with the provisions of Education Code Sections 46201 through 46206.

C. Schedule of Federal Financial Assistance

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

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

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

E. Schedule of Financial Trends and Analysis

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

GOODELL,
PORTER &
FREDERICKS, LLP

CERTIFIED
PUBLIC
ACCOUNTANTS

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

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

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

We have audited the general purpose financial statements of the Morgan Hill Unified School District, as of and for the year ended June 30, 2003, and have issued our report thereon dated November 21, 2003. Our audit was made in accordance with auditing standards generally accepted in the United States of America, the standards for financial and compliance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Controller's *Standards and Procedures for Audits of California K-12 Local Educational Agencies*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

<u>Description</u>	<u>Procedures in Controller's Audit Guide</u>	<u>Procedures Performed</u>
Attendance accounting:		
Attendance reporting	4	Yes
Kindergarten continuation	3	Yes
Independent study	13	No (see below)
Continuation education	11	Yes
Adult education	8	Yes
Regional Occupational Center/Programs	4	Not Applicable
Staff development days	4	Yes

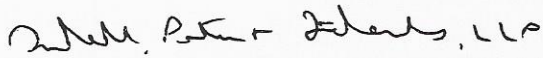
Board of Education
Morgan Hill Unified School District
Page Two

<u>Description</u>	<u>Procedures in Controller's Audit Guide</u>	<u>Procedures Performed</u>
Incentives for longer instructional day:		
School Districts	4	Yes
County Offices of Education	4	Not Applicable
GANN limit calculation	1	Yes
Early retirement incentive program	5	Not Applicable
Community Day Schools	8	Not Applicable
Class Size Reduction:		
Option One classes	10	Yes
Option Two classes	9	Not Applicable
Option One and Two classes	14	Not Applicable
Program to Reduce Class Size in Two Courses in Grade 9	8	Not Applicable
State Instructional Materials Fund:		
Instructional Materials Funding Realignment Program	9	Yes
Schiff-Bustamante Standards-Based Instructional Materials	9	Yes
Digital High School Education Technology Grant Program	5	Yes
California Public School Library Act of 1998	4	Yes
Ratios of administrative employees to teachers	3	Yes

We did not perform testing for independent study because the independent study ADA was under the level that requires testing.

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

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

November 21, 2003

GOODELL,
PORTER &
FREDERICKS, LLP

CERTIFIED
PUBLIC
ACCOUNTANTS

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

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

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

We have audited the financial statements of Morgan Hill Unified School District as of and for the year ended June 30, 2003, and have issued our report thereon dated November 21, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

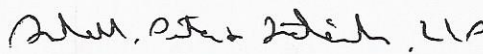
As part of obtaining reasonable assurance about whether Morgan Hill Unified School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and 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 none of the reportable conditions described above is a material weakness.

This report is intended solely 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

November 21, 2003

GOODELL,
PORTER &
FREDERICKS, LLP

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

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

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

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

Compliance

We have audited the compliance of Morgan Hill Unified School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. 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 auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Morgan Hill Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides 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, 2003.

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

November 21, 2003

FINDINGS AND RECOMMENDATIONS SECTION

MORGAN HILL UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2003

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Unqualified

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

CFDA Number

Name of Federal Program or Cluster

84.010

NCLB - Title I

84.027

Special Education - Local Preschool Staff Development

84.027

Special Education

84.027A

Low Incidence

10.553

National School Lunch Program

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

300,000

Auditee qualified as low-risk auditee?

☐ Yes ☒ No

State Awards

Internal control over state programs:

Material weakness(es) identified?

☐ Yes ☒ No

Reporting conditions(s) identified not

considered to be material weaknesses?

☐ Yes ☒ None reported

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

Unqualified

MORGAN HILL UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2003

Section II - Financial Statements Findings

2003 - 1 - DISTRICT BUDGET AND EMPLOYEE POSITION CONTROL - 30000

Finding: We reviewed the District's procedures for developing the 2003-2004 budget and determined the budget approved by the Governing Board may not account for all District employees.

Effect: The budget adopted for 2003-2004 may not include all District employees. There may not be resources to pay the salaries of employee not included in the budget. The board approves all new hires, but it may not be clear whether they are filling vacant positions or creating new ones.

Recommendation: The District should implement a position control system in order to more effectively control personnel expenditures and to ensure accurate budget projections. The current personnel budget should be reviewed immediately and modified if it is determined there are positions that are not included. The effect of adding any positions should be determined and budget reductions planned, if necessary. In the future, staff should not be hired without identifying the revenue source that will fund the position. Business services should be notified of all requests for new positions, and should sign off that the budget is in place prior to the hiring of new personnel. Communications between Human Resources and the Business Office should be improved, allowing staffing and budgetary decisions to be made in a coordinated manner.

District Response: As always, communications can be refined. Over the past four years, communications have continued to improve between the Human Resource and the Business Offices. The Human Resources Department is working closely with the Santa Clara County Office of Education to implement a position control system in order to more effectively control personnel expenditures and to insure accurate budget projections. The County is now piloting the position control system. A position control system is not currently available to the District, although representatives of the Human Resource Department have attended County meetings and have indicated to the County their high degree of interest in the department implementing a position control system as soon as it is available to school districts in the County.

2003 - 2 - BUDGETS AND BUDGETARY ACCOUNTING - 30000

Specific Requirement That Was Not Complied With: According to Education Code Section 46200, no expenditure may be made which exceeds the approved Budget of the governmental agency, by major object code, or by fund as a whole.

MORGAN HILL UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2003

Section II - Financial Statements Findings (Continued)

2003 - 2 - BUDGETS AND BUDGETARY ACCOUNTING - 30000 (CONTINUED)

Finding: It came to our attention during discussions with District management that certain program expenditures exceed the allowable appropriations for these programs. It appears the actual expenditures were not compared to the budget on a regular basis. With declining enrollment and continuing escalation of costs, it is more critical than ever that precautions are taken to avoid over-expenditures. Over the past five years, the District has gone through three accounting systems and the necessity of retraining dwindling staff that has created accounting processing issues:

- Some employees purchased supplies and entered into contracts without District knowledge and then requested reimbursement for the goods received and services rendered
- Stipends and extra hours that were approved and forwarded to payroll for processing without being adequately budgeted
- There were unbudgeted expenditures that were occurring during the last three months of the school year
- Budgeting did not reflect actual operations
- Poor estimate of actual costs
- Incorrect coding of expenditures
- Shortage in staff at the District Office did not provide for additional oversight
- Lack of communication and incorrect data exchanged between departments

Recommendation: The District should institute procedures to assure that no funds are spent without budget authorization. Steps to implement the above mentioned solution would include encumbrances of all purchase orders, with system blocks preventing the disbursement of unbudgeted funds, the encumbrance of payroll, and the requirement that all expenditures be approved by department heads or program managers. Program managers should implement monthly reviews of the approved the budget to actual reports to prevent future deficit spending.

District Response: Due to the complexity and increase in programs, we implemented a process that should have increased the efficiency at several sites within the District. We decentralized services and trained site staff to operate the financial system at their respective locations as District Office fiscal staff was reduced. Site staff had the advantage of operational insight in the financial process and provided direct support to the sites. At several sites this process was evolving. However, this system did break down and unbudgeted expenses increased instead of reducing the cost overruns. To correct the problems that occurred, remedies include:

- Budget blocking has not been available but will be implemented in the spring. This will not allow for a purchase order if no resource is allocated
- Additional training is needed on the financial systems and reading the reports
- Improved monitoring of stipends issued
- Approval of contracts by appropriate senior cabinet staff is required before a purchase order can be issued

MORGAN HILL UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2003

Section II - Financial Statements Findings (Concluded)

2003 - 2 - BUDGETS AND BUDGETARY ACCOUNTING – 30000 (CONCLUDED)

District Response (Concluded):

- Eliminating the use of direct pays, payments for obligations that services have already been rendered
- Purchase orders must be issued prior to the service being rendered or goods received.
- Starting at the initial step, if a budget warning is received, no action is taken until the budget issue is resolved
- More detailed analysis of staff costs as the budget is built

Section III - Federal Award Findings and Questioned Costs

No matters are reported

Section IV - State Award Findings and Questioned Costs

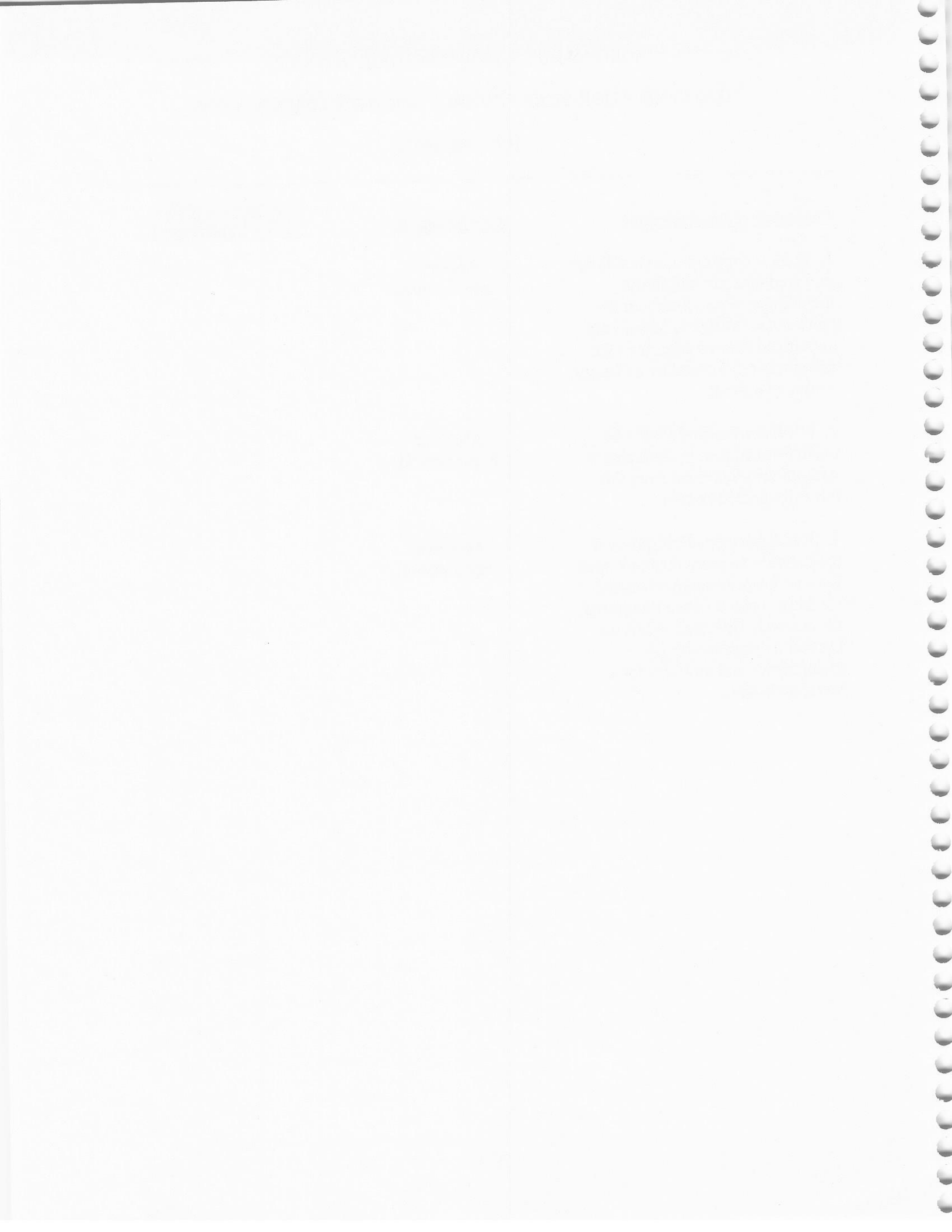
No matters are reported

MORGAN HILL UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

JUNE 30, 2003

<u>Findings/Recommendations</u>	<u>Current Status</u>	<u>Explanation if Not Fully Implemented</u>
1. 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 Implemented	
2. No disbursements should be made from student body accounts without prior approval from the three designated persons.	Accepted Implemented	
3. The district should implement procedures to ensure that personnel files are properly maintained and teaching credentials are monitored for renewal. This strengthens the District's controls over file maintenance and provides for a better audit trail.	Accepted Implemented	



MORGAN HILL UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2003

Section II - Financial Statements Findings (Concluded)

2003 - 2 - BUDGETS AND BUDGETARY ACCOUNTING - 30000 (CONCLUDED)

District Response (Concluded):

- Eliminating the use of direct pays, payments for obligations that services have already been rendered
- Purchase orders must be issued prior to the service being rendered or goods received.
- Starting at the initial step, if a budget warning is received, no action is taken until the budget issue is resolved
- More detailed analysis of staff costs as the budget is built

Section III - Federal Award Findings and Questioned Costs

No matters are reported

Section IV - State Award Findings and Questioned Costs

2003 - 3 - INCENTIVES FOR LONGER INSTRUCTIONAL DAY - 40000

Specific Requirement That Was Not Complied With: The 1983 Educational Reform Act established financial incentives for school districts that offer at least a specified minimum number of instructional minutes per year. Whenever passing time is claimed as instructional time, the passing time claimed must be of equal length at the same school site. (Education Code Section 46201).

Finding: The District did not comply with the specified minimum number of minutes (64,800) for the 9th grade at Martin Murphy Middle School. The deficiency occurred because the school claimed 5 minutes of passing time twice during each regular school day (177 regular school days) and once during each minimum school day (2 minimum school days). The passing time between all other periods for the regular and minimum days was 4 minutes. The school had one shortened day that correctly accounted for passing time. The school calculated 64,806 instructional minutes for 2002-03 and the correct amount claimed should have been 64,450. Therefore the number of minutes short is 350 (64,800-64,450).

Effect: The District received incentive funding for all 9th grade students in the District for which it did not qualify.



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MORGAN HILL UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2003

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

2003 - 3 - INCENTIVES FOR LONGER INSTRUCTIONAL DAY - 40000 (CONCLUDED)

Questioned Costs: The penalty to the District is calculated for the average daily attendance for the 9th grade sum of the base revenue apportionment multiplied by the percentage of the minimum offered minutes that the district failed to offer.

9 th grade P-2 ADA	611
Base Revenue Limit	<u>\$4,688.71</u>
Sum of Apportionment	2,864,802
Number of Minutes Short	350
Number of Required Minutes	<u>64,800</u>
Percentage	<u>.0054</u>
Penalty	<u>\$15,470</u>

Recommendation: The District should review the instructional minutes currently offered to ensure time is not claimed for passing times of varying lengths. Additionally, it is our recommendation that the District apply for a waiver from the State for this requirement for incentive funding received in 2002-03.

District Response: Educational Services staff has prepared the Instructional Minutes waiver and the waiver has been approved by the Morgan Hill Unified School District Board of Education.

In consultation with the State Department of Education, Martin Murphy Middle School's daily student schedule has been adjusted for the current school year (2003-2004) and will be adjusted for the next school year (2004-2005) to make up the deficiency in time. As directed by the State Department of Education, Martin Murphy is making up the deficit for two years.

The waiver, which was supported by the bargaining units and approved by the Morgan Hill Unified School District Board of Education, has been forwarded to the State Board of Education for approval.

THE HISTORY OF THE

REIGN OF

CHARLES THE FIRST

BY JOHN BURNET

IN TWO VOLUMES. THE FIRST CONTAINS THE HISTORY OF THE REIGN OF CHARLES THE FIRST, FROM HIS MARRIAGE TO HIS DEATH. THE SECOND CONTAINS THE HISTORY OF THE REIGN OF CHARLES THE SECOND, FROM HIS RESTORATION TO HIS DEATH.

LONDON, Printed by J. Streater, at the Sign of the Gun, in St. Dunstons Church-yard, 1680.

THE HISTORY OF THE REIGN OF CHARLES THE FIRST, FROM HIS MARRIAGE TO HIS DEATH. THE SECOND CONTAINS THE HISTORY OF THE REIGN OF CHARLES THE SECOND, FROM HIS RESTORATION TO HIS DEATH.

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MORGAN HILL UNIFIED SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME OFFERED
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

<u>Grade Level</u>	<u>1986-87 Minutes Requirement</u>	<u>1982-83 Actual Minutes</u>	<u>2002-2003 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
Kindergarten	36,000	31,680	36,000	180	In compliance
Grades 1 through 3	50,400	48,130	51,025	180	In compliance
Grades 4 through 6	54,000	51,920	54,052	180	In compliance
Grades 7 through 8	54,000	55,715	64,450	180	In compliance
Grade 9	64,800	55,715	64,450	180	Non compliant
Grades 10 through 12	64,800	60,849	64,888	180	In compliance

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 instruction time offered by the District and whether the District complied with the provisions of *Education Code* Sections 46200 through 46206.

Districts must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirements, whichever is greater, as required by *Education Code* Section 46201.

SEE NOTES TO SUPPLEMENTARY INFORMATION

THE UNIVERSITY OF CHICAGO
DIVISION OF THE PHYSICAL SCIENCES
DEPARTMENT OF CHEMISTRY
RESEARCH REPORT NO. 1000
JANUARY 1960
BY
J. H. GOLDSTEIN
AND
R. M. MAYER
ON THE
STRUCTURE OF THE
CRYSTALLINE
POLYMER
PHASES
OF
POLYETHYLENE
AND
POLYPROPYLENE
AS DETERMINED BY
X-RAY SCATTERING
AND
ELECTRON MICROSCOPY
WITH
CONTRIBUTIONS BY
J. H. GOLDSTEIN
AND
R. M. MAYER
TO THE
JOURNAL OF POLYMER SCIENCE
PART A-2
VOLUME 18
NUMBER 1
PAGES 1-10
1960

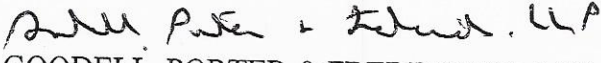
Board of Education
Morgan Hill Unified School District
Page Two

<u>Description</u>	<u>Procedures in Controller's Audit Guide</u>	<u>Procedures Performed</u>
Incentives for longer instructional day:		
School Districts	4	Yes
County Offices of Education	4	Not Applicable
GANN limit calculation	1	Yes
Early retirement incentive program	5	Not Applicable
Community Day Schools	8	Not Applicable
Class Size Reduction:		
Option One classes	10	Yes
Option Two classes	9	Not Applicable
Option One and Two classes	14	Not Applicable
Program to Reduce Class Size in Two Courses in Grade 9	8	Not Applicable
State Instructional Materials Fund:		
Instructional Materials Funding Realignment Program	9	Yes
Schiff-Bustamante Standards-Based		
Instructional Materials	9	Yes
Digital High School Education Technology		
Grant Program	5	Yes
California Public School Library		
Act of 1998	4	Yes
Ratios of administrative employees to teachers	3	Yes

We did not perform testing for independent study because the independent study ADA was under the level that requires testing.

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

November 21, 2003

MORGAN HILL UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2003

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

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>
84.010	NCLB - Title I
84.027	Special Education - Local Preschool Staff Development
84.027	Special Education
84.027A	Low Incidence
10.553	National School Lunch Program

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

