Financial Statements
June 30, 2020

Morgan Hill Unified School District

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Independent Auditor's Report

To the Governing Board
Morgan Hill Unified School District
Morgan Hill, California

Report on the Financial Statements
We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Morgan Hill Unified School District (District) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2020, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of changes in the District's total OPEB liability and related ratios, schedule of the District's proportionate share of the net pension liability, and the schedule of District contributions for pension, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Morgan Hill Unified School District's financial statements. The combining and individual nonmajor fund financial statements, Schedule of Expenditures of Federal Awards as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and other supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements.

The combining and individual nonmajor fund financial statements, the schedule of expenditures of federal awards, and the other supplementary information listed in the table of contents are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, the schedule of expenditures of federal awards, and the other supplementary information listed in the table of contents are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated January 6, 2021 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Eide Bailly LLP

San Mateo, California
January 6, 2021

Morgan Hill Unified School District
15600 Concord Circle
Morgan Hill, CA 95037

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Morgan Hill Unified School District's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30,2020, with comparative information for the year ended June 30, 2019. Please read it in conjunction with the District's financial statements, which immediately follow this section.

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, 2020. The intent of this discussion and analysis is to look at the District's financial performance as a whole. To provide a complete understanding of the District's financial performance, please read it in conjunction with the Independent Auditor's Report, Notes to the Basic Financial Statements, and the District's Financial Statements.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments issued June 1999. Certain comparative information is required to be presented in the MD&A.

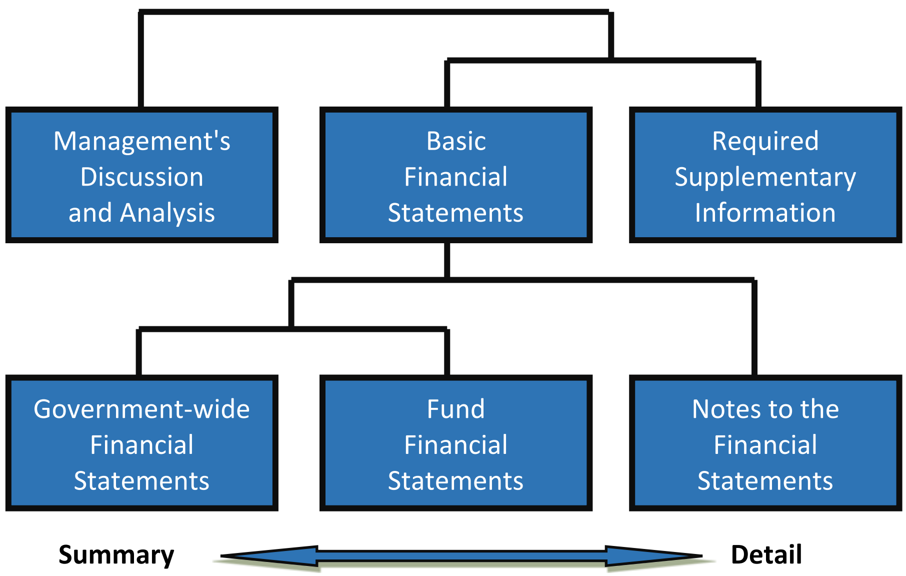
FINANCIAL HIGHLIGHTS

- The Governing Board continues to recognize their fiduciary responsibility to maintain the District’s fiscal solvency, continuing the Board’s commitment to ensure the District maintains sufficient reserves well above those required by the State.
- With the implementation of the Local Control Funding Formula, the District continues to receive increases in State funding. The new resources were directed to support school site programs and to partially reinstate some of the budget reductions made during the prior years.
- The District continued to have positive, collaborative relationships with all bargaining units.
- The District’s Local Control Accountability Plan (LCAP) highlights the use of LCFF funds for programs and initiatives that the District implemented in the past year. All school sites are now offering a robust after school program with LCFF Supplemental funding. The District is also continuing to expand programs at elementary schools.

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 (the District) as a financial whole, an entire operating entity. These statements then proceed to provide an increasingly detailed look at specific financial activities.

Components of the Financial Section



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

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 DISTRICT AS A WHOLE

The Statement of Net Position and the Statement of Activities

These two statements provide information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all the District's assets and liabilities using the accrual basis of accounting. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid. These statements report information on the District as a whole and its activities in a way that helps answer the question, "How did we do financially during 2019-2020?"

These two statements report the School District's net position and changes in it. This change in net position 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 position, as reported in the Statement of Activities, are one indicator of whether its financial health is improving or deteriorating. The relationship between revenues and expenses indicates the District's operating results. However, the District's goal is to provide services to our students, not to generate profits as commercial entities. One must consider many other non-financial factors, such as the quality of education provided and the safety of the schools, the condition of school buildings and other facilities, and changes to the property tax base of the District need to assess the overall health of the District.

Reporting the School District's Most Significant Funds

Fund Financial Statements

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

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

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

FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

The School District as a Whole

For the period ending June 30, 2020, the District's net position increased $0.54 million to $121.75 million, or a 0.44% increase. The District participates in both CalPERS and CalSTRS and therefore the aggregate net pension liability as of year-end was reflected on the financial statements (see Note 13 in the Annual Financial Report). The unrestricted net position decreased $0.44 million to $81.10 million or 0.55% (see Table 1).

(Table 1)

Comparative Condensed Statement of Net Position

	Governmental Activities	
	2020	2019
Assets		
Current and other assets	$ 115,666,586	$ 140,327,855
Capital assets	282,483,396	268,579,315
Total assets	398,149,982	408,907,170
Deferred outflows of resources	25,267,035	25,887,650
Liabilities		
Current liabilities	10,776,543	10,355,571
Long-term liabilities	278,023,897	296,028,769
Total liabilities	288,800,440	306,384,340
Deferred inflows of resources	12,865,930	7,196,174
Net Position		
Net investment in capital assets	178,602,355	165,803,012
Restricted	24,246,652	36,065,574
Unrestricted	(81,098,360)	(80,654,280)
Total net position	$ 121,750,647	$ 121,214,306

The District's net position increased by $0.54 million for this fiscal year (see Table 2). The District's expenses for instruction, instruction related services, and pupil services, represented 76% of total expenses. The purely administrative activities of the District account for just 6% of total costs. The remaining 18% was spent in the areas of plant services and other expenses, including interest on long-term obligations, depreciation of capital assets and other outgo (see Figure 2).

(**Table 2)**

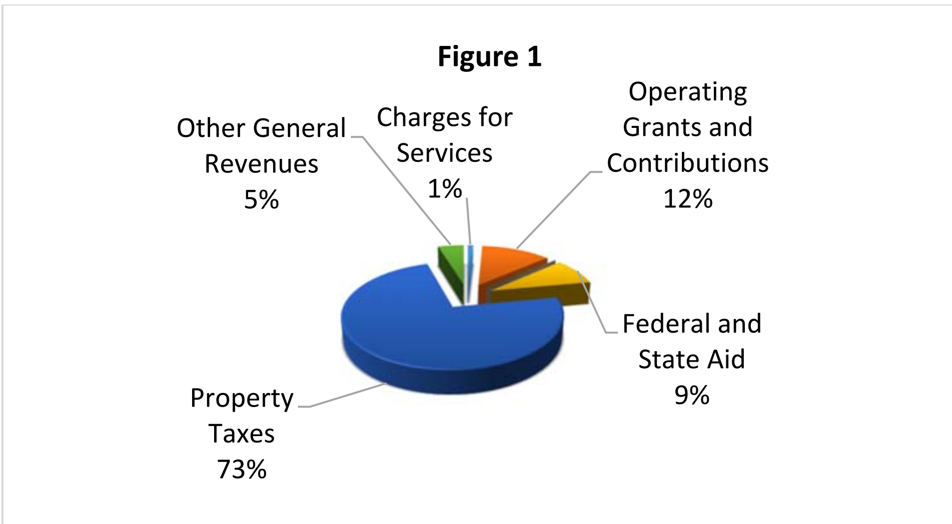
Comparative Condensed Statement of Changes in Net Position

	Governmental Activities	
	2020	2019
Revenues		
Program revenues		
Charges for services	$ 1,144,508	$ 1,782,992
Operating grants and contributions	15,115,623	15,962,567
General revenues		
Federal and State aid not restricted	10,466,598	12,108,498
Property taxes	88,911,652	92,674,092
Other general revenues	5,628,433	7,052,659
Total revenues	121,266,814	129,580,808
Expenses		
Instruction-related	79,143,644	76,863,898
Pupil services	12,758,818	12,297,196
Administration	6,920,613	6,785,359
Plant services	10,599,072	9,902,083
Other	11,308,326	14,459,623
Total expenses	120,730,473	120,308,159
Change in net position	$ 536,341	$ 9,272,649

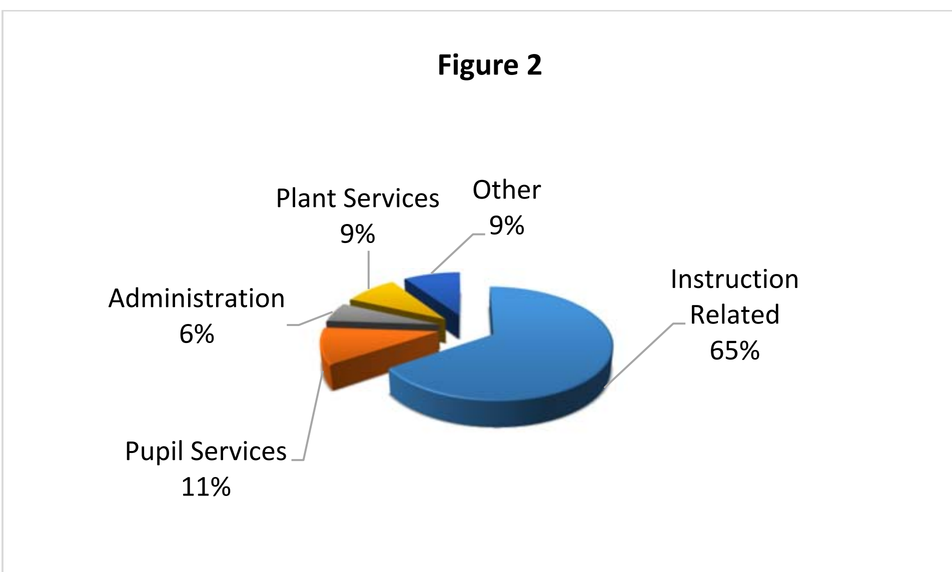
Governmental Activities

As reported in the Statement of Activities, the cost of all the District's governmental activities this year was $112 million. The amount that our local taxpayers financed for these activities through property taxes was $89 million or 73% of all revenues. Federal and State aid not restricted to specific purposes totaled $10 million or 9% (See Figure 1).

Revenues for the 2019-2020 Fiscal Year



Expenses for the 2019-2020 Fiscal Year



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 $107 million, a decrease of $25 million from the previous fiscal year. This decrease is primarily the result of capital projects and a decrease in the Bond Interest and Redemption Fund.

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget during each interim period. 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 enrollment.
- Budget revisions to update revenues and expenses in compliance with current education code requirements.
- Other budget revisions are routine in nature, including adjustments to categorical revenues and expenditures based on final awards, and adjustments between expenditure categories for school and department budgets.

The District ended the year with a General Fund ending balance of $33.9 million excluding the Special Reserve Fund for Non Capital and the Retiree Benefit Special Reserve Fund. The State recommends a minimum ending reserve for economic uncertainties of 3% of General Fund expenditures. The District's ending reserve was $28.4 million or 29.95%.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of the 2019-2020 fiscal year, the District had investments of about $377 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 valued at $282 million at June 30, 2020 which is an increase of $14 million from the previous year primarily due to the acquisition of real estate for a new elementary school and completed bond projects.

(Table 3)

	Governmental Activities	
	2020	2019
Capital Assets		
Land and construction in progress	$ 71,364,675	$ 52,537,361
Buildings and improvements	209,581,555	214,744,777
Equipment	1,537,166	1,297,177
Total	$ 282,483,396	$ 268,579,315

Long-Term Liabilities

As of June 30, 2020, the District had $278 million in long-term liabilities outstanding. The District participates in both CalPERS and CalSTRS and therefore the aggregate net pension liability as of year-end was reflected on the financial statements (see Note 13 in the Annual Financial Report).

(Table 4)

	Governmental Activities	
	2020	2019
Long-Term Liabilities		
General obligation bonds	$ 118,685,000	$ 135,540,000
Certificates of participation	13,505,000	13,505,000
Unamortized premiums/(discounts)	6,875,681	7,216,839
Compensated absences	300,488	261,119
Total OPEB liability	46,343,348	50,776,965
Aggregate net pension liability	92,314,380	88,728,846
Total	$ 278,023,897	$ 296,028,769

COMPARATIVE AVERAGE DAILY ATTENDANCE SCHEDULE

This schedule provides a comparison of average daily attendance for the current and prior year.

Enrollment and average daily attendance (ADA) has experienced an increase in current year. The schedule below depicts actual second period ADA from 2010-2011 to 2019-2020. Data excludes district students placed in County programs.

ADA P-2	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Elementary	5,809	5,688	5,670	5,655	5,567	5,517	5,438	5,432	5,342	5,338
High School	2,733	2,686	2,651	2,516	2,553	2,532	2,603	2,582	2,523	2,624
Total ADA	8,542	8,374	8,321	8,208	8,119	8,049	8,042	8,014	7,865	7,962
ADA Change	(137.62)	(168.00)	(53.00)	(113.00)	(88.97)	(69.88)	(7.57)	(27.41)	(149.66)	97.00
% Change	-1.59%	-1.97%	-0.63%	-1.36%	-1.08%	-0.86%	-0.09%	-0.34%	-1.87%	1.23%

FACTORS BEARING ON THE DISTRICT'S FUTURE

Under the leadership of Superintendent Steve Betando, the District continues to focus on improving our students test scores and enhancing our ability to identify those students to meet their individual needs. As part of the Local Control Accountability Plan, the District adopted three robust goals:

- COLLEGE AND CAREER READINESS: With an equity lens, the District will implement the Common Core State Standards (CCSS), Next Generation Science Standards (NGSS), and English Language Development (ELD) Standards to provide a strong grounding in core subject areas for all students.

- PARENT ENGAGEMENT: All parents are valued as partners in their child's education and are empowered to support their child's preparation for college or career readiness.

- STUDENT ENGAGEMENT AND SCHOOL CLIMATE: Increase student engagement, connectedness to school and community, and inspire productive persistence in all students to graduate college and be career ready.

In 2012-2013, Jackson became the District's first academy with a focus on math and music. Due to the success of the academy program and to expand choices for families, the District has opened four academies since 2014-2015: Walsh Elementary as a Science, Technology, Engineering, Arts, and Mathematics (STEAM Academy), San Martin-Gwinn as an Environmental Science Academy, Paradise Valley as an Engineering Academy, and El Toro as a Health Science Academy. The District continues to focus on assisting the students, parents and staff to ensure appropriate support to close this achievement gap.

The District provides post-employment health care benefits in accordance with the District's employment contacts. Administrative, classified, and certificated retirees who retire from the District on or after attaining age 55 receive post-employment health care benefits until the age of 65. In July 2009 the District implemented GASB 45 (Governmental Accounting Standards Board 45) and established a Special Reserve Fund for Post-Employment Benefits in compliance with GASB 45. The District selected the Frozen Entry Age funding method and made a one-time contribution from the General Fund of $537,000 in 2008-2009.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and 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 any additional financial information, contact Victoria Knutson, Director of Fiscal Services, Morgan Hill Unified School District, 15600 Concord Circle, Morgan Hill, CA 95037.

	Governmental Activities
Assets	
Deposits and investments	$ 110,893,740
Receivables	4,768,590
Prepaid items	4,256
Capital assets not depreciated	71,364,675
Capital assets, net of accumulated depreciation	211,118,721
Total assets	398,149,982
Deferred Outflows of Resources	
Deferred charge on refunding	79,585
Deferred outflows of resources related to OPEB	1,400,398
Deferred outflows of resources related to pensions	23,787,052
Total deferred outflows of resources	25,267,035
Liabilities	
Accounts payable	7,896,004
Interest payable	1,959,615
Unearned revenue	920,924
Long-term liabilities	
Long-term liabilities other than OPEB and pension	
Due within one year	9,318,838
Due in more than one year	130,047,331
Total other postemployment benefits (OPEB) liabilities	46,343,348
Aggregate net pension liabilities	92,314,380
Total liabilities	288,800,440
Deferred Inflows of Resources	
Deferred inflows of resources related to OPEB	6,575,116
Deferred inflows of resources related to pensions	6,290,814
Total deferred inflows of resources	12,865,930
Net Position	
Net investment in capital assets	178,602,355
Restricted for	
Debt service	9,423,551
Capital projects	10,948,559
Educational programs	3,727,295
Food service	147,247
Unrestricted	(81,098,360)
Total net position	$ 121,750,647

Functions/Programs	Expenses	Program Revenues: Charges for Services and Sales	Program Revenues: Operating Grants and Contributions	Net (Expenses) Revenues and Changes in Net Position: Governmental Activities
Governmental Activities				
Instruction	$ 66,315,360	$ 11,511	$ 8,230,172	$ (58,073,677)
Instruction-related activities				
Supervision of instruction	3,492,343	26	607,241	(2,885,076)
Instructional library, media, and technology	408,750	59	31,323	(377,368)
School site administration	8,927,191	364	775,826	(8,151,001)
Pupil services				
Home-to-school transportation	3,132,999	9,808	12,583	(3,110,608)
Food services	3,174,275	433,074	2,553,711	(187,490)
All other pupil services	6,451,544	-	1,392,809	(5,058,735)
Administration				
Data processing	1,586,961	45	311	(1,586,605)
All other administration	5,333,652	22,599	512,308	(4,798,745)
Plant services	10,599,072	1,680	124,227	(10,473,165)
Ancillary services	753,857	-	15,725	(738,132)
Community services	11,187	-	-	(11,187)
Interest on long-term liabilities	5,451,814	-	-	(5,451,814)
Other outgo	5,091,468	665,342	859,387	(3,566,739)
Total governmental activities	$ 120,730,473	$ 1,144,508	$ 15,115,623	$(104,470,342)
General Revenues and Subventions				
Property taxes, levied for general purposes				73,721,975
Property taxes, levied for debt service				12,019,488
Taxes levied for other specific purposes				3,170,189
Federal and State aid not restricted to specific purposes				10,466,598
Interest and investment earnings				990,170
Interagency revenues				158,131
Miscellaneous				4,480,132
Total general revenues and transfers				105,006,683
Change in Net Position				536,341
Net Position - Beginning				121,214,306
Net Position - Ending				$ 121,750,647

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
Assets					
Deposits and investments	$ 39,824,859	$ 48,614,109	$ 11,356,279	$ 11,098,493	$ 110,893,740
Receivables	3,676,568	174,494	26,887	890,641	4,768,590
Due from other funds	866,928	-	-	1,094,277	1,961,205
Prepaid expenditures	4,256	-	-	-	4,256
Total assets	$ 44,372,611	$ 48,788,603	$ 11,383,166	$ 13,083,411	$ 117,627,791
Liabilities and Fund Balances					
Liabilities					
Accounts payable	$ 4,925,309	$ 2,858,499	$ -	$ 112,196	$ 7,896,004
Due to other funds	187,750	906,527	-	866,928	1,961,205
Unearned revenue	920,924	-	-	-	920,924
Total liabilities	6,033,983	3,765,026	-	979,124	10,778,133
Fund Balances					
Nonspendable	18,756	-	-	6,000	24,756
Restricted	3,481,075	35,105,055	11,383,166	11,341,026	61,310,322
Committed	-	-	-	757,261	757,261
Assigned	6,462,317	9,918,522	-	-	16,380,839
Unassigned	28,376,480	-	-	-	28,376,480
Total fund balances	38,338,628	45,023,577	11,383,166	12,104,287	106,849,658
Total liabilities and fund balances	$ 44,372,611	$ 48,788,603	$ 11,383,166	$ 13,083,411	$ 117,627,791

Total Fund Balance - Governmental Funds		$ 106,849,658
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of capital assets is	$ 376,927,019	
Accumulated depreciation is	(94,443,623)	
Net capital assets		282,483,396
In governmental funds, unmatured interest on long-term liabilities is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term liabilities is recognized when it is incurred.		(1,959,615)
Deferred outflows of resources represent a consumption of net position in a future period and is not reported in the governmental funds. Deferred outflows of resources amounted to and related to		
Debt refundings	79,585	
Other postemployment benefits	1,400,398	
Net pension obligation	23,787,052	
Total deferred outflows of resources		25,267,035
Deferred inflows of resources represent an acquisition of net position that applies to a future period and is not reported in the governmental funds. Deferred inflows of resources amount to and related to		
Other postemployment benefits	(6,575,116)	
Net pension obligation	(6,290,814)	
Total deferred inflows of resources		(12,865,930)
Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.		(92,314,380)
The District's OPEB liability is not due and payable in the current period, and is not reported as a liability in the funds.		(46,343,348)
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, including unamortized premiums	(125,657,554)	
Certificates of participation, including unamortized discounts	(13,408,127)	
Compensated absences (vacations)	(300,488)	
Total long-term liabilities		(139,366,169)
Total net position - governmental activities		$ 121,750,647

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
Revenues					
Local control funding formula	$ 81,021,483	$ -	$ -	$ 300,000	$ 81,321,483
Federal sources	4,141,346	700,375	-	2,597,001	7,438,722
Other State sources	8,419,820	-	53,944	969,426	9,443,190
Other local sources	5,426,791	1,704,207	12,206,430	2,758,821	22,096,249
Total revenues	99,009,440	2,404,582	12,260,374	6,625,248	120,299,644
Expenditures					
Current					
Instruction	55,689,889	-	-	438,829	56,128,718
Instruction-related activities					
Supervision of instruction	3,011,100	-	-	57,989	3,069,089
Instructional library, media, and technology	301,515	-	-	-	301,515
School site administration	7,403,491	-	-	317,463	7,720,954
Pupil services	-				
Home-to-school transportation	2,854,558	-	-	-	2,854,558
Food services	44,108	-	-	2,844,618	2,888,726
All other pupil services	5,588,998	-	-	2,167	5,591,165
Administration	-				
Data processing	1,445,922	-	-	-	1,445,922
All other administration	4,548,937	-	-	181,547	4,730,484
Plant services	8,145,884	43,194	-	66,271	8,255,349
Ancillary services	669,301	-	-	-	669,301
Community services	10,193	-	-	-	10,193
Other outgo	4,444,387	-	-	-	4,444,387
Capital outlay	156,660	19,553,556	-	4,992,922	24,703,138
Debt service	-				
Principal	-	-	16,855,000	-	16,855,000
Interest and other	-	958,855	4,990,076	-	5,948,931
Total expenditures	94,314,943	20,555,605	21,845,076	8,901,806	145,617,430
Excess (Deficiency) of Revenues Over Expenditures	4,694,497	(18,151,023)	(9,584,702)	(2,276,558)	(25,317,786)
Other Financing Sources (Uses)					
Transfers in	40,286	412,794	-	194,001	647,081
Transfers out	(606,795)	-	-	(40,286)	(647,081)
Net Financing Sources (Uses)	(566,509)	412,794	-	153,715	-
Net Change in Fund Balances	4,127,988	(17,738,229)	(9,584,702)	(2,122,843)	(25,317,786)
Fund Balance - Beginning	34,210,640	62,761,806	20,967,868	14,227,130	132,167,444
Fund Balance - Ending	$ 38,338,628	$ 45,023,577	$ 11,383,166	$ 12,104,287	$ 106,849,658

Total Net Change in Fund Balances - Governmental Funds		$ (25,317,786)
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures; however, for governmental activities, those costs are shown in the Statement of Net Position and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities.		
This is the amount by which capital outlays exceeds depreciation in the period.		
Depreciation expense	$ (9,581,712)	
Capital outlays	23,512,930	
Net expense adjustment		13,931,218
Loss on disposal of capital assets is reported in the government-wide Statement of Net Position, but is not recorded in the governmental funds.		(27,137)
In the Statement of Activities, certain operating expenses, such as compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This amount is the difference between vacation earned and used.		(39,369)
In the governmental funds, pension costs are based on employer contributions made to pension plans during the year. However, in the Statement of Activities, pension expense is the net effect of all changes in the deferred outflows, deferred inflows and net pension liability during the year.		(5,481,751)
In the governmental funds, OPEB costs are based on employer contributions made to OPEB plans during the year. However, in the Statement of Activities, OPEB expense is the net effect of all changes in the deferred outflows, deferred inflows, and net OPEB liability during the year.		119,049

Deferred amounts on refunding (the difference between the reacquisition price of the net carrying amount of the refunded debt) are capitalized and amortized over the remaining life of the new or old debt, whichever is shorter.	(79,586)
Governmental funds report the effect of premiums, discounts, and the deferred amount on a refunding when the debt is first issued, whereas the amounts are deferred and amortized in the Statement of Activities.	
Premium amortization	354,998
Discount amortization	(13,840)
Payment of principal on long-term liabilities is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities.	
General obligation bonds	16,855,000
Interest on long-term liabilities is recorded as an expenditure in the funds when it is due; however, in the Statement of Activities, interest expense is recognized as the interest accretes or accrues, regardless of when it is due.	235,545
Change in net position of governmental activities	$ 536,341

	Agency Funds
Assets	
Deposits and investments	$ 660,997
Total assets	$ 660,997
Liabilities	
Due to student groups	$ 660,997
Total liabilities	$ 660,997

Note 1 - Summary of Significant Accounting Policies

Financial Reporting Entity

The Morgan Hill Unified School District was unified on July 1, 1966 under the laws of the State of California. The District operates under a locally elected seven-member Board form of government and provides educational services to grades K-12 as mandated by the State and/or Federal agencies. The District operates eight elementary, two middle, two high schools, a continuation high school and a community adult school as well as a home-schooling program.

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For the Morgan Hill Unified School District, this includes general operations, food service, and student related activities of the District.

Component Unit – Capital Project Component Unit Fund

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District, in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. The component unit, although a legally separate entity is reported in the financial statements using the blended presentation method as if it was part of the District's operations because the governing board of the component unit is essentially the same as the governing board of the District and because its purpose is to finance the construction of facilities to be used for the direct benefit of the District. The financial activity for this component unit is presented in the financial statements as the Capital Projects Fund.

Basis of Presentation - Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The District's funds are grouped into two broad fund categories: governmental and fiduciary.

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major and non-major governmental funds:

Major Governmental Funds

General Fund The General Fund is the chief operating fund for all districts. It is used to account for the ordinary operations of the District. All transactions except those amounts for another fund are accounted for in this fund.

Two funds currently defined as special revenue funds in the California State Accounting Manual (CSAM) do not meet the GASB Statement No. 54 special revenue fund definition. Specifically, Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, and Fund 20, Special Reserve Fund for Post-employment Benefits, are not substantially composed of restricted or committed revenue sources. While these funds are authorized by statute and will remain open for internal reporting purposes, these funds function effectively as extensions of the General Fund, and accordingly have been combined with the General Fund for presentation in these audited financial statements.

Building Fund The Building Fund exists primarily to account separately for proceeds from the sale of bonds *(Education Code* Section 15146) and may not be used for any purposes other than those for which the bonds were issued.

Bond Interest and Redemption Fund The Bond Interest and Redemption Fund is used for the repayment of bonds issued for a District *(Education Code* Sections 15125-15262).

Non-Major Governmental Funds

Special Revenue Funds The Special Revenue funds are used to account for the proceeds from specific revenue sources (other than trusts, major capital projects, or debt service) that are restricted or committed to the financing of particular activities, that compose a substantial portion of the inflows of the fund, and that are reasonably expected to continue. Additional resources that are restricted, committed, or assigned to the purpose of the fund may also be reported in the fund.

- **Adult Education Fund** The Adult Education Fund is used to account separately for Federal, State, and local revenues that are restricted or committed for adult education programs and is to be expended for adult education purposes only.

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

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

- **Deferred Maintenance Fund** The Deferred Maintenance Fund is used to account separately for revenues that are restricted or committed for deferred maintenance purposes (*Education Code* Section 17582).

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

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

- **Capital Project Fund for Blended Component Units** This fund is used to account for capital projects financed by parcel taxes, upon approval of the voters during 2006-2007.

Fiduciary Funds Fiduciary funds are used to account for assets held in trustee or agent capacity for others that cannot be used to support the District's own programs. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. The key distinction between trust and agency funds is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The District's agency fund accounts for student body activities (ASB) and scholarship activities.

Basis of Accounting - Measurement Focus

Government-Wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, for each governmental function, and excludes fiduciary activity. Direct expenses are those that are specifically associated with a service, program, or department and are therefore, clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the Statement of Activities, except for depreciation. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws from the general revenues of the District. Eliminations have been made to minimize the double counting of internal activities.

Net position should be reported as restricted when constraints placed on net position are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net position restricted for other activities result from special revenue funds and the restrictions on their use.

Fund Financial Statements Fund financial statements report detailed information about the District. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statement.

Governmental Funds All governmental funds are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting, and the governmental fund financial statements, prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting.

Fiduciary Fund Fiduciary Fund is accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Fiduciary fund is excluded from the government-wide financial statements because they do not represent resources of the District.

Revenues – Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter, to be used to pay liabilities of the current fiscal year. The District considers revenues to be available if they are collected within one year after year-end, except for property taxes, which are considered available if collected within 60 days. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, certain grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose restrictions. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Unearned Revenue Unearned revenues arise when resources are received by the District before it has a legal claim to them, such as when certain grants are received prior to the occurrence of qualifying expenditures. In the subsequent periods, when the District has a legal claim to the resources, the liability for unearned revenue is removed from the balance sheet and the revenue is recognized.

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred. Principal and interest on long-term liabilities, which has not matured, are recognized when paid in the governmental funds as expenditures. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds but are recognized in the entity-wide statements.

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include cash with county treasury balances.

Investments

Investments with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and state investment pools are determined by the program sponsor.

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. Capital assets are long-lived assets of the District. The District maintains a capitalization threshold of $20,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized in the government-wide statement of net position. The valuation basis for capital assets is historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 20 to 50 years; improvements, 5 to 50 years; equipment, 2 to 15 years. Donated capital assets are capitalized at estimated fair market value on the date donated.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental columns of the statement of net position.

Compensated Absences

Compensated absences are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide statement of net position. For governmental funds, the current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year-end that have not yet been paid with expendable available financial resources. These amounts are reported in the fund from which the employees who have accumulated leave are paid.

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave.

Accrued Liabilities and Long-Term Liabilities

All payables, accrued liabilities, and long-term liabilities are reported in the government-wide and proprietary fund financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as liabilities of the governmental funds.

However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the governmental fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases, and other long-term liabilities are recognized as liabilities in the governmental fund financial statements when due.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position also reports deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The District reports deferred outflows of resources for deferred charges on refunding of debt, for pension related items, and for OPEB related items. The deferred charge on refunding resulted from the difference between the carrying value of the refunded debt and its reacquisition price. The amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred amounts related to pension and OPEB relate to differences between expected and actual earnings on investments, changes of assumptions, and other pension and OPEB related changes.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The District reports deferred inflows of resources for deferred charges on refunding of debt, for pension related items, and for OPEB related items.

Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the California State Teachers Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) plan for schools (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalSTRS and CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Member contributions are recognized in the period in which they are earned. Investments are reported at fair value. The net pension liability attributable to the governmental activities will be paid by the fund in which the employee worked.

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District Plan and additions to/deductions from the District Plan have been determined on the same basis as they are reported by the District Plan. For this purpose, the District Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost. The total OPEB liability attributable to the governmental activities will be paid primarily by the General Fund.

Debt Premiums and Discounts

In the government-wide financial statements and in the proprietary fund type financial statements, long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net position. Debt premiums and discounts are amortized over the life of the bonds using the straight-line method.

Fund Balances - Governmental Funds

As of June 30, 2020, fund balances of the governmental funds are classified as follows:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed - amounts that can be used only for specific purposes determined by a formal action of the governing board. The governing board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions or other action as approved by the governing board.

Assigned - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the District's adopted policy, only the governing board or chief business officer/assistant superintendent of business services may assign amounts for specific purposes.

Unassigned - all other spendable amounts.

Spending Order Policy

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the governing board has provided otherwise in its commitment or assignment actions.

Net Position

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

Interfund Activity

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

Estimates

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

Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of Santa Clara bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

Change in Accounting Principles

In May 2020, the GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

The effective dates of certain provisions contained in the following pronouncements are postponed by one year:

- Statement No. 83, Certain Asset Retirement Obligations
- Statement No. 84, Fiduciary Activities
- Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements
- Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period
- Statement No. 90, Majority Equity Interests
- Statement No. 91, Conduit Debt Obligations
- Statement No. 92, Omnibus 2020
- Statement No. 93, Replacement of Interbank Offered Rates
- Implementation Guide No. 2017-3, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)
- Implementation Guide No. 2018-1, Implementation Guidance Update—2018
- Implementation Guide No. 2019-1, Implementation Guidance Update—2019
- Implementation Guide No. 2019-2, Fiduciary Activities

The effective dates of the following pronouncements are postponed by 18 months:

- Statement No. 87, Leases
- Implementation Guide No. 2019-3, Leases

The provisions of this Statement have been implemented as of June 30, 2020.

New Accounting Pronouncements

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all State and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

As a result of the implementation of GASB No. 95, the requirements of this Statement are effective for the reporting periods beginning after December 15, 2019. Early implementation is encouraged. The effects of this change on the District's financial statements have not yet been determined.

In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

As a result of the implementation of GASB Statement No. 95, the requirements of this Statement are effective for the reporting periods beginning after June 15, 2021. Early implementation is encouraged. The effects of this change on the District's financial statements have not yet been determined.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

As a result of the implementation of GASB Statement No. 95, the requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged. The requirements of this Statement should be applied prospectively. The effects of this change on the District's financial statements have not yet been determined.

In August 2018, the GASB issued Statement 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 60*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

As a result of the implementation of GASB Statement No. 95, the requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively. The effects of this change on the District's financial statements have not yet been determined.

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

A conduit debt obligation is defined as a debt instrument having all of the following characteristics:

- There are at least three parties involved: (1) an issuer, (2) a third-party obligor, and (3) a debt holder or a debt trustee.
- The issuer and the third-party obligor are not within the same financial reporting entity.
- The debt obligation is not a parity bond of the issuer, nor is it cross-collateralized with other debt of the issuer.
- The third-party obligor or its agent, not the issuer, ultimately receives the proceeds from the debt issuance.
- The third-party obligor, not the issuer, is primarily obligated for the payment of all amounts associated with the debt obligation (debt service payments).

The third-party obligor, not the issuer, is primarily obligated for the payment of all amounts associated All conduit debt obligations involve the issuer making a limited commitment. Some issuers extend additional commitments or voluntary commitments to support debt service in the event the third party is, or will be, unable to do so.

An issuer should not recognize a conduit debt obligation as a liability. However, an issuer should recognize a liability associated with an additional commitment or a voluntary commitment to support debt service if certain recognition criteria are met. As long as a conduit debt obligation is outstanding, an issuer that has made an additional commitment should evaluate at least annually whether those criteria are met. An issuer that has made only a limited commitment should evaluate whether those criteria are met when an event occurs that causes the issuer to reevaluate its willingness or ability to support the obligor’s debt service through a voluntary commitment.

This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities. Payments from third-party obligors are intended to cover and coincide with debt service payments. During those arrangements, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements.

Issuers should not report those arrangements as leases, nor should they recognize a liability for the related conduit debt obligations or a receivable for the payments related to those arrangements. In addition, the following provisions apply:

- If the title passes to the third-party obligor at the end of the arrangement, an issuer should not recognize a capital asset.
- If the title does not pass to the third-party obligor and the third party has exclusive use of the entire capital asset during the arrangement, the issuer should not recognize a capital asset until the arrangement ends.
- If the title does not pass to the third-party obligor and the third party has exclusive use of only portions of the capital asset during the arrangement, the issuer, at the inception of the arrangement, should recognize the entire capital asset and a deferred inflow of resources. The deferred inflow of resources should be reduced, and an inflow recognized, in a systematic and rational manner over the term of the arrangement.

This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period.

As a result of the implementation of GASB Statement No. 95, the requirements of this Statement are effective for the reporting periods beginning after December 15, 2021. Early implementation is encouraged. The effects of this change on the District's financial statements have not yet been determined.

In January 2020, the GASB issued Statement No. 92, *Omnibus 2020*. The objectives of this statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following:

- The effective date of Statement No. 87, Leases, and Implementation Guide No. 2019-3, Leases, for interim financial reporting.
- Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan.

- The applicability of Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, to reporting assets accumulated for postemployment benefits.
- The applicability of certain requirements of Statement No. 84, Fiduciary Activities, to postemployment benefit arrangements.
- Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition.
- Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers.
- Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature.
- Terminology used to refer to derivative instruments.

As a result of the implementation of GASB Statement No. 95, the requirements of this Statement are effective as follows:

- The requirements related to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance.
- The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2021.
- The requirements related to application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2021.
- The requirements related to the measurement of liabilities (and assets, if any) associated with AROs in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2021.

Early implementation is encouraged. The effects of this change on the District's financial statements have not yet been determined.

In March 2020, the GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an IBOR (Interbank Offered Rate). This Statement achieves that objective by:

- Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment.
- Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate.
- Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable.
- Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap.
- Identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap.
- Clarifying the definition of reference rate, as it is used in Statement 53, as amended.
- Providing an exception to the lease modifications guidance in Statement 87, as amended, for certain lease contracts that are amended solely to replace an IBOR as the rate upon which variable payments depend.

As a result of the implementation of GASB Statement No. 95, the removal of LIBOR as an appropriate benchmark interest rate (paragraph 11b) is effective for reporting periods ending after December 31, 2021. Paragraph 13 and 14 related to lease modifications is effective for reporting periods beginning after June 15, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020. Early implementation is encouraged. The effects of this change on the District's financial statements have not yet been determined.

In March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement.

This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged. The effects of this change on the District's financial statements have not yet been determined.

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended.

A SBITA is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction.
The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged. The effects of this change on the District's financial statements have not yet been determined.

In June 2020, the GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately.

The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021. Earlier application of those requirements is encouraged and permitted by requirement as specified within this Statement.

The Board considered the effective dates for the requirements of this Statement in light of the COVID-19 pandemic and in concert with Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance. The effects of this change on the District's financial statements have not yet been determined.

Note 2 - Deposits and Investments

Summary of Deposits and Investments

Deposits and investments as of June 30, 2020, are classified in the accompanying financial statements as follows:

Governmental funds	$ 110,893,740
Fiduciary funds	660,997
Total deposits and investments	$ 111,554,737

Deposits and investments as of June 30, 2020, consist of the following:

Cash on hand and in banks	$ 9,190,695
Cash in revolving	20,500
Investments	102,343,542
Total deposits and investments	$ 111,554,737

Policies and Practices

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

Investment in County Treasury - The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (*Education Code* Section 41001). The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis. This pool is not registered with Security Exchange Commission.

General Authorizations

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury Pool and money market accounts.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investment in the Santa Clara County Pool is not required to be rated nor has it been rated as of June 30, 2020.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. As of June 30, 2020, the District's bank balance of approximately $8.45 million was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

Note 3 - Fair Value Measurements

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value. The following provides a summary of the hierarchy used to measure fair value:

Level 1 inputs – quoted prices in active markets for identical assets.
Level 2 inputs – quoted prices in active or inactive for the same or similar assets.
Level 3 inputs – estimates using the best information available when there is little or no market.

Uncategorized - Investments in the Santa Clara County Treasury Investment Pool are not measured using the input levels above because the District's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at $1.00 net asset value per share. The County Treasury Investment Pool has a daily redemption frequency period and a one-day redemption notice period.

Note 4 - Receivables

Receivables at June 30, 2020, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
Federal Government					
Categorical aid	$ 1,983,790	$ -	$ -	$ 729,234	$ 2,713,024
State Government					
LCFF apportionment	397,318	-	-	-	397,318
Categorical aid	541,451	-	-	117,720	659,171
Lottery	423,677	-	-	-	423,677
Local Government					
Interest	166,575	174,494	26,887	43,320	411,276
Other local sources	163,757	-	-	367	164,124
Total	$ 3,676,568	$ 174,494	$ 26,887	$ 890,641	$ 4,768,590

Note 5 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2020, was as follows:

	Balance July 1, 2019	Additions	Deductions	Balance June 30, 2020
Governmental Activities				
Capital assets not being depreciated				
Land	$ 17,615,844	$ -	$ -	$ 17,615,844
Construction in progress	34,921,517	24,154,238	(5,326,924)	53,748,831
Total capital assets not being depreciated	52,537,361	24,154,238	(5,326,924)	71,364,675
Capital assets being depreciated				
Buildings and improvements	297,758,144	4,077,845	(338,961)	301,497,028
Furniture and equipment	3,466,704	607,771	(9,159)	4,065,316
Total capital assets being depreciated	301,224,848	4,685,616	(348,120)	305,562,344
Total capital assets	353,762,209	28,839,854	(5,675,044)	376,927,019
Accumulated depreciation				
Buildings and improvements	(83,013,367)	(9,213,930)	311,824	(91,915,473)
Furniture and equipment	(2,169,527)	(367,782)	9,159	(2,528,150)
Total accumulated depreciation	(85,182,894)	(9,581,712)	320,983	(94,443,623)
Governmental activities capital assets, net	$ 268,579,315	$ 19,258,142	$ (5,354,061)	$ 282,483,396

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

Governmental Activities	
Instruction	$ 5,741,779
Supervision of instruction	313,957
Instructional library, media, and technology	30,844
School site administration	789,827
Home-to-school transportation	292,012
Food services	295,507
All other pupil services	571,957
Ancillary Services	68,467
Community Services	1,043
Data processing	147,913
All other administration	483,912
Plant services	844,494
Total depreciation expenses governmental activities	$ 9,581,712

Note 6 - Interfund Transactions

Interfund Receivables/Payables (Due To/Due From)

	Due From		
Due To	General Fund	Non-Major Governmental Funds	Total
General Fund	$ -	$ 187,750	$ 187,750
Building Fund	-	906,527	906,527
Non-Major Governmental Funds	866,928	-	866,928
Total	$ 866,928	$ 1,094,277	$ 1,961,205

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

Operating Transfers

Interfund transfers for the year ended June 30, 2020, consisted of the following:

	Transfer From			
Transfer To	General Fund	Building Fund	Non-Major Governmental Funds	Total
General Fund	$ -	$ 412,794	$ 194,001	$ 606,795
Non-Major Governmental Funds	40,286	-	-	40,286
Total	$ 40,286	$ 412,794	$ 194,001	$ 647,081

Capital Facilities Fund transferred to General Fund pursuant to Education Code 17620(a)(5), a three percent fee is collected on developer fees for reimbursement of administrative costs incurred in collecting the fees.	$ 40,286
General Fund transferred to Adult Education Fund to serve concurrently enrolled students.	6,251
General Fund transfer to Def Maintainace Fund to cover project expenditures.	187,750
General Fund transferred to Building Fund to cover the cost of the solar programs.	412,794
Total	$ 647,081

Note 7 - Deferred Amount on Refunding

Deferred outflows of resources are a consumption of net position by the District that is applicable to a future reporting period. The $79,585 balance of the deferred amounts on refunding at June 30, 2020 will be recognized as an expense and as a decrease in net position over the remaining life of related bonds.

Deferred amount on refunding at June 30, 2020 is as follows:

	Balance July 1, 2019	Additions	Deductions	Balance June 30, 2020
Deferred amounts on refunding	$ 159,171	$ -	$ 79,586	$ 79,585

Note 8 - Accounts Payable

Accounts payable at June 30, 2020, consisted of the following:

	General Fund	Building Fund	Non-Major Governmental Funds	Total
Vendor payables	$ 2,266,152	$ 2,858,499	$ 82,810	$ 5,207,461
State principal apportionment	2,345,126	-	-	2,345,126
Salaries and benefits	314,031	-	29,386	343,417
Total	$ 4,925,309	$ 2,858,499	$ 112,196	$ 7,896,004

Note 9 - Unearned Revenue

Unearned revenue at June 30, 2020, consists of the following:

	General Fund
Federal financial assistance	$ 13,053
State categorical aid	138,823
Other local	769,048
Total	$ 920,924

Note 10 - Long-Term Liabilities other than OPEB and Pensions

Summary

The changes in the District's long-term liabilities other than OPEB and pensions during the year consisted of the following:

	Balance July 1, 2019	Additions	Deductions	Balance June 30, 2020	Due in One Year
Long-Term Liabilities					
General obligation bonds	$ 135,540,000	$ -	$ (16,855,000)	$ 118,685,000	$ 8,950,000
Certificates of participation	13,505,000	-	-	13,505,000	-
Unamortized debt premiums	7,327,552	-	(354,998)	6,972,554	354,998
Unamortized debt discounts	(110,713)	-	13,840	(96,873)	13,840
Compensated absences	261,119	39,369	-	300,488	-
Total	$ 156,522,958	$ 39,369	$ (17,196,158)	$ 139,366,169	$ 9,318,838

The Bond Interest and Redemption fund is used to collect assessed property taxes which are used to repay the general obligation bonds (GOBs). Payment of certificate of participation (COPs) will be paid from General fund. Compensated absences will be paid by the fund for which the employee works.

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issuance Date	Final Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2019	Redeemed	Bonds Outstanding June 30, 2020
2012	2042	2.00%-3.25%	$ 55,000,000	$ 45,880,000	$ (270,000)	$ 45,610,000
2015	2020	2.00%-5.00%	3,925,000	1,775,000	(1,205,000)	570,000
2015	2020	0.73%-2.31%	31,805,000	13,720,000	(9,345,000)	4,375,000
2017	2047	2.69%-5.00%	80,000,000	74,165,000	(6,035,000)	68,130,000
				$ 135,540,000	$ (16,855,000)	118,685,000
					Unamortized premium on GOBs	6,972,554
					Total	$ 125,657,554

Debt Service Requirements to Maturity

The bonds mature through 2049 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2021	$ 8,950,000	$ 4,539,944	$ 13,489,944
2022	445,000	4,367,913	4,812,913
2023	540,000	4,348,213	4,888,213
2024	645,000	4,324,513	4,969,513
2025	750,000	4,292,863	5,042,863
2026-2030	5,815,000	20,732,640	26,547,640
2031-2035	13,085,000	19,098,034	32,183,034
2036-2040	23,010,000	15,657,621	38,667,621
2041-2045	35,915,000	9,788,000	45,703,000
2046-2049	29,530,000	1,831,400	31,361,400
Total	$ 118,685,000	$ 88,981,141	$ 207,666,141

Certificates of Participation

In May 2011, the Morgan Hill Unified School District issued certificates of participation in the amount of $13,505,000 with interest rates ranging from 2 to 7.1 percent. As of June 30, 2020, the principal balance outstanding was $13,505,000. The certificates mature through 2027 as follows:

Year Ending June 30,	Principal	Interest	Total
2021	$ -	$ 958,855	$ 958,855
2022	-	958,855	958,855
2023	-	958,855	958,855
2024	-	958,855	958,855
2025	-	958,855	958,855
2026-2027	13,505,000	1,917,710	15,422,710
Total	$ 13,505,000	$ 6,711,985	$ 20,216,985

Compensated Absences

Compensated absences (unpaid employee vacation) for the District at June 30, 2020 amounted to $300,488.

Note 11 - Total Other Postemployment Benefit (OPEB) Liability

For the fiscal year ended June 30, 2019, the District reported total OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense for the following plans:

OPEB Plan	Total OPEB Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	OPEB Expense
District Plan	$ 46,343,348	$ 1,400,398	$ 6,575,116	$ (119,049)

Plan Administration

The District's governing board administers the Postemployment Benefits Plan (the Plan). The Plan is a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for eligible retirees and their spouses. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

Plan Membership

At June 30, 2019, the valuation date, the Plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits payments	300
Active employees	434
Total	734

Benefits Provided

The Plan provides medical, dental and vision insurance benefits to eligible retirees and their spouses. Benefits are provided through a third-party insurer, and the full cost of benefits is covered by the Plan. The District's governing board has the authority to establish and amend the benefit terms as contained within the negotiated labor agreements. The District's benefits are capped at $9,000 annually.

Contributions

The contribution requirements of the Plan members and the District are established and may be amended by the District, the District's bargaining units and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2019-2020, the District contributed $1,177,647 to the Plan, all of which was used for current premiums.

Total OPEB Liability of the District

The District's total OPEB liability of $46,343,348 was measured as of June 30, 2019, and the assumption used to calculate the total OPEB liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The total OPEB liability in the June 30, 2019 actuarial valuation was determined using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75	percent
Salary increases	3.00	percent, average, including inflation
Investment rate of return	2.79	percent, net of OPEB plan investment expense, including inflation
Healthcare cost trend rates	4.00	percent for 2019

The discount rate was based on the Bond Buyer 20-bond General Obligation Index.

Mortality rates were based on the 2009 CalSTRS Mortality Table for certificated employees and the 2014 CalPERS Active Mortality for Miscellaneous Employees Table for classified employees. Mortality rates vary by age and sex. (Unisex mortality rates are not often used as individual OPEB benefits do not depend on the mortality table used.) If employees die prior to retirement, past contributions are available to fund benefits for employees who live to retirement. After retirement, death results in benefit termination or reduction. Although higher mortality rates reduce service costs, the mortality assumption is not likely to vary from employer to employer.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actual experience study for the period July 1, 2018 to June 30, 2019.

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance, June 30, 2018	$ 50,776,965
Service cost	1,952,843
Interest	1,497,955
Changes of benefit terms	(1,585,457)
Differences between expected and actual experience	(7,418,080)
Changes of assumptions or other inputs	2,139,162
Benefit payments	(1,020,040)
Net change in total OPEB liability	(4,433,617)
Balance, June 30, 2019	$ 46,343,348

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

Discount Rate	Total OPEB Liability
1% decrease (1.79%)	$ 55,734,088
Current discount rate (2.79%)	46,343,348
1% increase (3.79%)	39,133,187

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percent lower or higher than the current healthcare costs trend rates:

Healthcare Cost Trend Rates	Total OPEB Liability
1% decrease (3%)	$ 39,382,495
Current healthcare cost trend rate (4%)	46,343,348
1% increase (5%)	55,403,676

OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2020, the District recognized negative OPEB expense of $119,049. At June 30, 2020, the District reported deferred outflows of resources for OPEB contributions subsequent to the measurement date of $1,177,647. At June 30, 2020, the District reported deferred outflows of resources and deferred inflow of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	$ 1,177,647	$ -
Differences between expected and actual experience	-	6,575,116
Changes of assumptions	222,751	-
Total	$ 1,400,398	$ 6,575,116

The deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the subsequent fiscal year.

The deferred inflows of resources related to the changes of assumptions will be amortized over the average of the expected remaining service lives of all employees. As of June 30, 2019, the average for District employees is 8.8 years. The deferred inflows will be recognized in OPEB expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2021	$ (778,935)
2022	(778,935)
2023	(778,935)
2024	(778,935)
2025	(778,935)
Thereafter	(2,457,690)
Total	$ (6,352,365)

Note 12 - Fund Balances

Fund balances are composed of the following elements:

	General Fund	Building Fund	Bond Interest BBd Redemption Fund	Non-Major Governmental Funds	Total
Nonspendable					
Revolving cash	$ 14,500	$ -	$ -	$ 6,000	$ 20,500
Prepaid expenditures	4,256	-	-	-	4,256
Total nonspendable	18,756	-	-	6,000	24,756
Restricted					
Legally restricted programs	3,481,075	-	-	-	3,481,075
Adult educational program	-	-	-	245,710	245,710
Child development program	-	-	-	510	510
Food program	-	-	-	146,247	146,247
Capital projects	-	35,105,055	-	10,948,559	46,053,614
Debt services	-	-	11,383,166	-	11,383,166
Total restricted	3,481,075	35,105,055	11,383,166	11,341,026	61,310,322
Committed					
Adult education program	-	-	-	333,628	333,628
Deferred maintenance program	-	-	-	423,633	423,633
Total committed	-	-	-	757,261	757,261
Assigned					
Educational programs carryover	1,998,459	-	-	-	1,998,459
Various educational programs	3,850,999	-	-	-	3,850,999
Retiree benefits	612,859	-	-	-	612,859
Capital Projects	-	9,918,522	-	-	9,918,522
Total assigned	6,462,317	9,918,522	-	-	16,380,839
Unassigned					
Reserve for economic uncertainties	2,921,852	-	-	-	2,921,852
Remaining unassigned	25,454,628	-	-	-	25,454,628
Total unassigned	28,376,480	-	-	-	28,376,480
Total	$ 38,338,628	$ 45,023,577	$ 11,383,166	$ 12,104,287	$ 106,849,658

Note 13 - Risk Management

The District is exposed to various risks of loss related to torts; theft, damage and destruction of assets; errors and omissions; injuries to employees; life and health of employees; and natural disasters. The District purchases commercial insurance for property damage with coverage up to a maximum of $500 million, subject to various policy sublimits generally ranging from $1 million to $5 million. Employee health benefits are covered by a commercial insurance policy purchased by the District. The District provides health insurance benefits to District employees electing to participate in the plan by paying a monthly premium based on the number of District employees participating in the plan.

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2020, the District contracted with Santa Clara County Schools Insurance Group for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

Workers' Compensation

For fiscal year 2020, the District participated in the Santa Clara County Schools Insurance Group, an insurance purchasing pool. The intent of the Santa Clara County Schools Insurance Group is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Santa Clara County Schools Insurance Group. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in the Santa Clara County Schools Insurance Group. Each participant pays its workers' compensation premium based on its individual rate. A participant will then either receive money from or be required to contribute to the "equity-pooling fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the Santa Clara County Schools Insurance Group. Participation in the Santa Clara County Schools Insurance Group is limited to districts that can meet the Santa Clara County Schools Insurance Group selection criteria.

Note 14 - Employee Retirement Systems

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Academic employees are members of the California State Teachers' Retirement System (CalSTRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS).

For the fiscal year ended June 30, 2020, the District reported its proportionate share of net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

Pension Plan	Net Pension Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
CalSTRS	$ 62,212,546	$ 16,937,800	$ 5,859,675	$ 7,439,855
CalPERS	30,101,834	6,849,252	431,139	5,432,960
Total	$ 92,314,380	$ 23,787,052	$ 6,290,814	$ 12,872,815

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

The District contributes to the State Teachers' Retirement Plan (STRP) administered by the California State Teachers' Retirement System (CalSTRS). STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2018, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: http://www.calstrs.com/member-publications.

Benefits Provided

The STRP provides retirement, disability and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service.

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the state is the sponsor of the STRP and obligor of the trust. In addition, the state is both an employer and nonemployer contributing entity to the STRP.

The District contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

The STRP provisions and benefits in effect at June 30, 2020, are summarized as follows:

	STRP Defined Benefit Program	
	On or before	On or after
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	10.25%	10.205%
Required employer contribution rate	17.10%	17.10%
Required state contribution rate	10.328%	10.328%

Contributions

Required member, District and State of California contributions rates are set by the California Legislature and the Governor and detailed in the Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven year period. The contribution rates for each plan for the year ended June 30, 2020, are presented above and the District's total contributions were $6,442,355.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2020, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related state support and the total portion of the net pension liability that was associated with the District were as follows:

Total net pension liability, including State share	
Proportionate share of net pension liability	$ 62,212,546
State's proportionate share of the net pension liability	33,941,097
Total	$ 96,153,643

The net pension liability was measured as of June 30, 2019. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportionate share for the measurement period June 30, 2019 and June 30, 2018, respectively was 0.0689 percent and 0.0663 percent, resulting in a net increase in the proportionate share of 0.0026 percent.

For the year ended June 30, 2020, the District recognized its proportionate share pension expense of $7,439,855. In addition, the District also recorded pension expense and revenue of $5,054,561 for support provided by the State. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 6,442,355	$ -
Change in proportion and differences between contributions made and District's proportionate share of contributions	2,469,864	1,710,152
Differences between projected and actual earnings on pension plan investments	-	2,396,445
Differences between expected and actual experience in the measurement of the total pension liability	157,054	1,753,078
Changes of assumptions	7,868,527	-
Total	$ 16,937,800	$ 5,859,675

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred inflows of resources related to the difference between projected and actual earnings on pension plan investments are amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2021	$ (241,722)
2022	(1,902,495)
2023	(394,987)
2024	142,759
Total	$ (2,396,445)

The deferred outflows/(inflows) of resources related to the change in proportion and differences between contributions made and District's proportionate share of contributions, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is seven years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2021	$ 1,692,552
2022	1,923,733
2023	1,591,220
2024	1,848,372
2025	(137,979)
Thereafter	114,317
Total	$ 7,032,215

Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying updated procedures to the financial reporting actuarial valuation as of June 30, 2018, and rolling forward the total pension liability to June 30, 2019. The financial reporting actuarial valuation as of June 30, 2018, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2018
Measurement date	June 30, 2019
Experience study	July 1, 2010 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.10%
Investment rate of return	7.10%
Consumer price inflation	2.75%
Wage growth	3.50%

CalSTRS uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among its members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (Pension Consulting Alliance-PCA) as an input to the process. The actuarial investment rate of return assumption was adopted by the board in February 2017 in conjunction with the most recent experience study. For each future valuation, CalSTRS consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometrically-linked real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2019, are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	47%	4.8%
Fixed income	12%	1.3%
Real estate	13%	3.6%
Private equity	13%	6.3%
Risk mitigating strategies	9%	1.8%
Inflation sensitive	4%	-3.3%
Cash/liquidity	2%	-0.4%

Discount Rate

The discount rate used to measure the total pension liability was 7.10 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.10 percent) and assuming that contributions, benefit payments and administrative expense occurred midyear. Based on these assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

The following presents the District's proportionate share of the net pension liability calculated using the current discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

Discount Rate	Net Pension Liability
1% decrease (6.10%)	$ 92,639,630
Current discount rate (7.10%)	62,212,546
1% increase (8.10%)	36,982,698

California Public Employees Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the School Employer Pool (SEP) and the Safety Risk 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. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2018 annual actuarial valuation reports, Schools Pool Actuarial Valuation, and the Risk Pool Actuarial Valuation Report, Safety. These reports and CalPERS audited financial information are publicly available reports that can be found on the CalPERS website under Forms and Publications at: https://www.calpers.ca.gov/page/forms-publications.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of service credit, a benefit factor and the member's final compensation. Members hired on or before December 31, 2012, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or 52 for members hired on or after January 1, 2013), and has at least five years of credited service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The CalPERS provisions and benefits in effect at June 30, 2020, are summarized as follows:

	School Employer Pool (CalPERS)	
	On or before	On or after
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.00%	7.00%
Required employer contribution rate	19.721%	19.721%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2020, are presented above and the total District contributions were $2,808,986.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions

As of June 30, 2020, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling $30,101,834. The net pension liability was measured as of June 30, 2019. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2019 and June 30, 2018, respectively was 0.1033 percent and 0.1042 percent, resulting in a net decrease in the proportionate share of 0.0009 percent.

For the year ended June 30, 2020, the District recognized pension expense of $5,432,960. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 2,808,986	$ -
Change in proportion and differences between contributions made and District's proportionate share of contributions	420,724	151,939
Differences between projected and actual earnings on pension plan investments	-	279,200
Differences between expected and actual experience in the measurement of the total pension liability	2,186,601	-
Changes of assumptions	1,432,941	-
Total	$ 6,849,252	$ 431,139

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows of resources related to the difference between projected and actual earnings on pension plan investments are amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2021	$ 275,602
2022	(550,505)
2023	(83,423)
2024	79,126
Total	$ (279,200)

The deferred outflows/(inflows) of resources related to the change in proportion and differences between contributions made and District's proportionate share of contributions, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 4.1 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2021	$ 2,526,284
2022	1,028,338
2023	303,366
2024	30,339
Total	$ 3,888,327

Actuarial Methods and Assumptions

Total pension liability for the SEP was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2018, and rolling forward the total pension liability to June 30, 2019. The financial reporting actuarial valuation as of June 30, 2018, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2018
Measurement date	June 30, 2019
Experience study	July 1, 1997 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.15%
Investment rate of return	7.15%
Consumer price inflation	2.50%
Wage growth	Varies by entry age and service

The mortality table used was developed based on CalPERS-specific data. The table includes 15 years of mortality improvements using Society of Actuaries 90 percent of scale MP-2016.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first ten years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	50%	5.98%
Fixed income	28%	2.62%
Inflation assets	0%	1.81%
Private equity	8%	7.23%
Real assets	13%	4.93%
Liquidity	1%	-0.92%

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

The following presents the District's proportionate share of the net pension liability calculated using the current discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

Discount Rate	Net Pension Liability
1% decrease (6.15%)	$ 43,389,815
Current discount rate (7.15%)	30,101,834
1% increase (8.15%)	19,078,537

Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by Social Security or an alternative plan. The District has elected to use Social Security.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of $3,545,270 (10.328 percent of annual payrolls) Contributions are no longer appropriated in the annual Budget Act for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded on the financial statements.

Senate Bill 90 (Chapter 33, Statutes of 2019), which was signed by the Governor on June 27, 2019, appropriated an additional 2019–2020 contribution on-behalf of school employers of $1.1 billion for CalSTRS. A proportionate share of these contributions in the amount of $ 1,189,203 million have been recorded in these financial statements and General Fund-Budgetary Comparison Schedule.

Note 15 - Commitments and Contingencies

Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2020.

COVID-19 Pandemic

Subsequent to year-end, the District has been negatively impacted by the effects of the world-wide coronavirus pandemic. The District is closely monitoring its operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the issuance date of these financial statements, the full impact to the District’s financial position is not known beyond increased cash flow monitoring due to state apportionment deferrals.

Construction Commitments

As of June 30, 2020, the District had the following commitments with respect to unfinished capital projects:

Capital Project	Remaining Construction Commitment	Expected Date of Completion
Britton New Campus	$ 4,742,670	August 2020
Nordstrom Classrooms	5,214,050	December 2020
JAMM Classrooms	7,321,050	November 2020
Classroom Technology	39,291	January 2021
Live Oak Fencing	47,100	June 2021
Martin Murphy Fencing	29,173	June 2021
Sobrato Fencing	52,700	June 2021
Total	$ 17,446,033	

Litigation

The District is not currently a party to any legal proceedings.

Note 16 - Participation in Public Entity Risk Pools

The District is a member of the Santa Clara County Schools Insurance Group public entity risk pool (the pool). The District pays an annual premium to the applicable entity for its health, workers' compensation, and property liability coverage. The relationship between the District and the pool is such that it is not component unit of the District for financial reporting purposes.

This entity has budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, fund transactions between the entities and the District are included in these statements. Audited financial statements are generally available from the entity.

The District has appointed one board member to the Governing Board of the Santa Clara County Schools Insurance Group.

During the year ended June 30, 2020, the District made a payment of $1,040,792 for workers' compensation insurance and $712,321 for property liability coverage to the Santa Clara County Schools Insurance Group.

Required Supplementary Information
June 30, 2020

Morgan Hill Unified School District

	Budgeted Amounts			Variances - Positive (Negative)
	Original	Final	Actual	Final to Actual
Revenues				
Local control funding formula	$ 79,361,242	$ 80,540,382	$ 81,021,483	$ 481,101
Federal sources	3,808,542	4,760,871	4,141,346	(619,525)
Other State sources	6,817,848	7,233,939	8,419,820	1,185,881
Other local sources	3,586,604	5,281,601	5,283,624	2,023
Total revenues [1]	93,574,236	97,816,793	98,866,273	1,049,480
Expenditures				
Current				
Certificated salaries	38,671,947	40,468,551	39,075,521	1,393,030
Classified salaries	14,506,129	14,416,543	13,740,211	676,332
Employee benefits	21,219,700	21,925,347	22,013,852	(88,505)
Books and supplies	3,256,777	5,504,685	3,239,025	2,265,660
Services and operating expenditures	11,566,478	14,094,596	11,380,170	2,714,426
Other outgo	4,580,247	4,608,382	4,262,841	345,541
Capital outlay	2	761,002	603,323	157,679
Total expenditures [1]	93,801,280	101,779,106	94,314,943	7,464,163
Excess (Deficiency) of Revenues Over Expenditures	(227,044)	(3,962,313)	4,551,330	8,513,643
Other Financing Sources (Uses)				
Transfers in	1,475,287	2,721,084	40,286	(2,680,798)
Transfers out	(2,724,789)	(3,815,406)	(419,045)	3,396,361
Net financing sources (uses)	(1,249,502)	(1,094,322)	(378,759)	715,563
Net Change in Fund Balances	(1,476,546)	(5,056,635)	4,172,571	9,229,206
Fund Balance - Beginning	29,702,199	29,702,199	29,702,199	-
Fund Balance - Ending	$ 28,225,653	$ 24,645,564	33,874,770	$ 9,229,206
Special Reserve Fund for Other Than Capital Outlay Projects			3,850,999	
Special Reserve Fund for Postemployment Benefits			612,859	
Fund Balance - Ending			$ 38,338,628	

	2020	2019	2018
Total OPEB Liability			
Service cost	$ 1,952,843	$ 1,818,977	$ 1,984,946
Interest	1,497,955	1,469,226	1,320,152
Changes of benefit terms	(1,585,457)	-	-
Difference between expected and actual experience	(7,418,080)	-	-
Changes of assumptions	2,139,162	1,281,703	(3,591,558)
Benefit payments	(1,020,040)	(1,466,115)	(1,508,907)
Net change in total OPEB liability	(4,433,617)	3,103,791	(1,795,367)
Total OPEB Liability - Beginning	50,776,965	47,673,174	49,468,541
Total OPEB Liability - Ending	$ 46,343,348	$ 50,776,965	$ 47,673,174
Covered Payroll	N/A[1]	N/A[1]	N/A[1]
Total OPEB Liability as a Percentage of Covered Payroll	N/A[1]	N/A[1]	N/A[1]
Measurement Date	June 30, 2019	June 30, 2018	June 30, 2017

[1] The OPEB Plan is not administered through a trust and contributions are not made based on a measure of pay. Therefore, no measure of payroll is presented.

Note: In the future, as data becomes available, ten years of information will be presented.

	2020	2019	2018	2017	2016	2015
CalSTRS						
Proportion of the net pension liability (asset)	0.0689%	0.0663%	0.0685%	0.0686%	0.0700%	0.0670%
Proportionate share of the net pension liability (asset)	$ 62,212,546	$ 60,948,651	$ 63,317,270	$ 55,524,384	$ 47,100,020	$ 39,151,313
State's proportionate share of the net pension liability (asset)	33,941,097	34,895,953	37,457,962	31,609,042	24,910,718	23,641,253
Total	$ 96,153,643	$ 95,844,604	$ 100,775,232	$ 87,133,426	$ 72,010,738	$ 62,792,566
Covered payroll	$ 36,789,958	$ 36,382,579	$ 36,639,182	$ 34,366,785	$ 29,917,624	$ -
Proportionate share of the net pension liability (asset) as a percentage of its covered payroll	169.10%	167.52%	172.81%	161.56%	157.43%	130.07%
Plan fiduciary net position as a percentage of the total pension liability	73%	71%	69%	70%	74%	77%
Measurement Date	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
CalPERS						
Proportion of the net pension liability (asset)	0.1033%	0.1042%	0.1014%	0.0974%	0.0960%	0.0935%
Proportionate share of the net pension liability (asset)	$ 30,101,834	$ 27,780,195	$ 24,211,698	$ 19,240,492	$ 14,155,717	$ 10,616,563
Covered payroll	$ 14,383,598	$ 13,744,412	$ 12,933,837	$ 11,687,917	$ 10,633,088	$ 9,812,471
Proportionate share of the net pension liability (asset) as a percentage of its covered payroll	209.28%	202.12%	187.20%	164.62%	133.13%	108.19%
Plan fiduciary net position as a percentage of the total pension liability	70%	71%	72%	74%	79%	83%
Measurement Date	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014

Note : In the future, as data becomes available, ten years of information will be presented.

	2020	2019	2018	2017	2016	2015
CalSTRS						
Contractually required contribution	$ 6,442,355	$ 5,989,025	$ 5,245,292	$ 4,599,667	$ 3,688,822	$ 2,909,037
Less contributions in relation to the contractually required contribution	6,442,355	5,989,025	5,245,292	4,599,667	3,688,822	2,909,037
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 37,674,591	$ 36,789,958	$ 36,382,579	$ 36,639,182	$ 34,366,785	$ 29,917,624
Contributions as a percentage of covered payroll	17.10%	16.28%	14.42%	12.55%	10.73%	9.72%
CalPERS						
Contractually required contribution	$ 2,808,986	$ 2,582,166	$ 2,135,702	$ 1,795,108	$ 1,384,676	$ 1,216,638
Less contributions in relation to the contractually required contribution	2,808,986	2,582,166	2,135,702	1,795,108	1,384,676	1,216,638
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 14,243,629	$ 14,383,598	$ 13,744,412	$ 12,933,837	$ 11,687,917	$ 10,633,088
Contributions as a percentage of covered payroll	19.72%	17.95%	15.54%	13.88%	11.85%	11.44%

Note : In the future, as data becomes available, ten years of information will be presented.

Note 1 - Purpose of Schedules

Budgetary Comparison Schedule

The District employs budget control by object codes and by individual appropriation accounts. Budgets are prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United State of America as prescribed by the Governmental Accounting Standards Board and provisions of the California *Education Code*. The governing board is required to hold a public hearing and adopt an operating budget no later than July 1 of each year. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for.

Schedule of Changes in the District's Total OPEB Liability and Related Ratios

This schedule presents information on the District's changes in the total OPEB liability, including beginning and ending balances. In the future, as data becomes available, ten years of information will be presented.

- *Change in Benefit Terms* – Classified employees who retire after age 55 and with at least 10 years of service after December 31, 2019 are no longer entitled to a maximum benefit of $9,000 annually.
- *Change of Assumptions* – Discount rate change from 2.98% at June 30, 2018 to 2.79% at June 30, 2019.

Schedule of the District's Proportionate Share of the Net Pension Liability

This schedule presents information on the District's proportionate share of the net pension liability (NPL), the plans' fiduciary net position and, when applicable, the State's proportionate share of the NPL associated with the District. In the future, as data becomes available, ten years of information will be presented.

Changes in Benefit Terms – There were no changes in benefit terms since the previous valuations for both CalSTRS and CalPERS.

Changes of Assumptions – There were no changes in economic assumptions for either the CalSTRS or CalPERS plans from the previous valuations.

Schedule of District Contributions for Pension

This schedule presents information on the District's required contribution, the amounts actually contributed, and any excess or deficiency related to the required contribution. In the future, as data becomes available, ten years of information will be presented.

Supplementary Information
June 30, 2020

Morgan Hill Unified School District

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Education			
Passed Through California Department of Education (CDE)			
Individuals with Disabilities Act (IDEA):			
Basic Local Assistance Entitlement	84.027	13379	$ 1,475,221
IDEA, Part B, Section 611,Private Schools	84.027	10115	9,603
IDEA, Mental Health Allocation Plan, Part B, Section 611	84.027	15197	102,489
IDEA, Preschool Grants, Part B, Section 619	84.173	13430	33,589
IDEA, Preschool Staff Development, Part B, Section 619	84.173	13431	276
Subtotal for Special Education Cluster			1,621,178
Adult Education Act:			
Adult Basic Education	84.002A	14508	20,102
Adult Secondary Education	84.002	13978	67,189
English Literacy and Civics Education	84.002A	14109	1,998
Subtotal for Adult Education			89,289
Title I - Basic Grants Low Income and Neglected	84.010	14329	696,061
Title I - ESEA: ESSA School Imporvement (CSI) Funding for LEAs	84.010	15438	295,075
Title I - Migrant Education	84.011	14838	168,721
Title I - Migrant Education Summer Program	84.011	10005	33,235
Title I - Migrant Ed Even Start Program	84.011	14768	70,104
Title II - Improving Teacher Quality	84.367	14341	164,885
Title III - Limited English Proficient (LEP) Student Program	84.365	14346	129,703
Title III - Immigrant Education Program	84.365	15146	1,056
Title IV - Student Support and Academic Enrichment Grants	84.424	15391	593,859
Title IV - Student Support and Academic Enrichment Grant Program	84.424	15396	68,554
Rehabilitation Services Vocational Rehabilitation			
Grants to States - Workability II	84.126	10006	186,861
Career and Technical Education	84.048	14894	48,002
Total U.S. Department of Education			4,166,583
U.S. Department of Agriculture			
Passed Through California Department of Education			
Child Nutrition Cluster			
National School Lunch Program	10.555	13391	1,358,819
School Breakfast Program - Especially Needy Breakfast	10.553	13526	698,966
National School Lunch Program - Commodity Supplemental Food	10.555	13391	330,489
Total Child Nutrition Cluster			2,388,274
Child and Adult Care Food Program	10.558	13393	119,437
Total U.S. Department of Agriculture			2,507,711
Total Expenditures of Federal Awards			$ 6,674,294

ORGANIZATION

The Morgan Hill Unified School District was established in 1966 and consists of an area comprising approximately 300 square miles. The District operates eight elementary schools, two middle schools, two high schools, one continuation, and one adult education school. There were no boundary changes during the year.

MEMBER	OFFICE	TERM EXPIRES
Carol Gittens	President	2020
Wendy Sullivan	Vice President	2022
Adam Escoto	Member	2020
Mary Patterson	Member	2022
John Horner	Member	2022
Heather Orosco	Member	2022
Jeanne Gilliard	Member	2020

ADMINISTRATION

Steve Betando	Superintendent
Kirsten Perez	Deputy Superintendent
Sharon Fawn Myers	Assistant Superintendent of Human Resources
Pilar Vazquez-Vialva	Assistant Superintendent of Educational Services

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	2,336.63	2,336.63
Fourth through sixth	1,738.17	1,738.17
Seventh and eighth	1,248.88	1,248.88
Ninth through twelfth	2,615.29	2,615.29
Total Regular ADA	7,938.97	7,938.97
Extended Year Special Education		
Transitional kindergarten through third	3.95	3.95
Fourth through sixth	2.17	2.17
Seventh and eighth	1.37	1.37
Total Extended Year Special Education	7.49	7.49
Special Education, Nonpublic, Nonsectarian Schools		
Fourth through sixth	2.68	2.68
Seventh and eighth	3.24	3.24
Ninth through twelfth	8.16	8.16
Total Special Education, Nonpublic, Nonsectarian Schools	14.08	14.08
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Fourth through sixth	0.21	0.21
Seventh and eighth	0.38	0.38
Ninth through twelfth	0.38	0.38
Total Extended Year Special Education, Nonpublic, Nonsectarian Schools	0.97	0.97
Total ADA	7,961.51	7,961.51

Grade Level	1986-1987 Minutes Requirement	2019-2020 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Kindergarten	36,000	55,965	180	N/A	Complied
Grades 1 - 3					
Grade 1	50,400	50,925	180	N/A	Complied
Grade 2	50,400	50,925	180	N/A	Complied
Grade 3	50,400	50,925	180	N/A	Complied
Grades 4 - 6					
Grade 4	54,000	54,240	180	N/A	Complied
Grade 5	54,000	54,240	180	N/A	Complied
Grade 6	54,000	54,159	180	N/A	Complied
Grades 7 - 8					
Grade 7	54,000	54,159	180	N/A	Complied
Grade 8	54,000	54,159	180	N/A	Complied
Grades 9 - 12					
Grade 9	64,800	65,014	180	N/A	Complied
Grade 10	64,800	65,014	180	N/A	Complied
Grade 11	64,800	65,014	180	N/A	Complied
Grade 12	64,800	65,014	180	N/A	Complied

Summarized below are the fund balance reconciliations between the Unaudited Actual Financial Report and the audited Financial Statements.

	General Fund	Special Reserve Fund for Other Than Capital Outlay Projects	Special Reserve Fund for Postemployment Benefits	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds
Fund Balance						
Balance, June 30, 2020, Unaudited Actuals	$ 33,460,156	$ 3,803,589	$ 605,665	$ 44,550,671	$ 11,249,317	$ 11,974,003
Increase in cash in county treasury to record fair market value	414,614	47,410	7,194	472,906	133,849	130,284
As a result of the implementation of GASB Statement No. 54, Fund 17 and Fund 20 are combined into the financial statement	4,463,858	(3,850,999)	(612,859)			
Balance, June 30, 2020, Audited Financial Statements	$ 38,338,628	$ -	$ -	$ 45,023,577	$ 11,383,166	$ 12,104,287

See Notes to Supplementary Information

	(Budget) 2021 [1]	2020	2019	2018
General Fund				
Revenues	$ 90,072,145	$ 99,009,440	$ 99,539,648	$90,006,743
Other sources	2,645,525	40,286	82,319	83,736
Total Revenues and Other Sources	92,717,670	99,049,726	99,621,967	90,090,479
Expenditures	97,764,744	94,314,943	95,536,295	89,443,633
Other uses and transfers out	3,860,217	606,795	2,418,468	2,141,701
Total Expenditures and Other Uses	101,624,961	94,921,738	97,954,763	91,585,334
Increase/(Decrease) in Fund Balance	(8,907,291)	4,127,988	1,667,204	(1,494,855)
Ending Fund Balance	$ 29,431,337	$ 38,338,628	$ 34,210,640	$32,543,436
Available Reserves [2]	$ 26,298,473	$ 28,376,480	$20,390,091	$18,360,543
Available Reserves as a Percentage of Total Outgo	25.88%	29.89%	20.82%	20.05%
Long-Term Liabilities [3]	$ 130,047,331	$ 139,366,169	$ 156,522,958	$ 172,837,682
K-12 Average Daily Attendance at P-2	7,966	7,962	7,865	8,014

The General Fund balance has increased by $5,756,577 over the past two years. The fiscal year 2020-2021 budget projects a decrease of $8,907,291 (26 percent) in General Fund balance. For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred an operating surplus in two of the past three years but anticipates incurring an operating deficit during the 2020-2021 fiscal year. Total long-term liabilities have decreased by $33,471,513 over the past two years.

Average daily attendance has decreased by 52 over the past two years. An increase of 4 ADA is anticipated during fiscal year 2020-2021.

[1] Budget 2021 is included for analytical purposes only and has not been subjected to audit.
[2] Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained with the General Fund, Special Reserve Non-Capital Fund and the Retiree Benefit Special Reserve Fund.
[3] Long-term liabilities amount excluded pension and OPEB liabilities.

Name of Charter School	Charter Number	Included in Audit Report
The Charter School of Morgan Hill	0363	No

	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	Capital Project Component Unit Fund	Total Non-Major Governmental Funds
Assets							
Deposits and investments	$ 484,948	$ 43,297	$ 290,154	$ 235,557	$ 8,634,557	$ 1,409,980	$ 11,098,493
Receivables	119,523	2,934	727,232	326	35,863	4,763	890,641
Due from other funds	-	-	-	187,750	906,527	-	1,094,277
Total assets	$ 604,471	$ 46,231	$ 1,017,386	$ 423,633	$ 9,576,947	$ 1,414,743	$ 13,083,411
Liabilities and Fund Balances							
Liabilities							
Accounts payable	$ 1,877	$ 34,938	$ 72,536	$ -	$ 2,724	$ 121	$ 112,196
Due to other funds	18,256	10,783	797,603	-	40,286	-	866,928
Total liabilities	20,133	45,721	870,139	-	43,010	121	979,124
Fund Balances							
Nonspendable	5,000	-	1,000	-	-	-	6,000
Restricted	245,710	510	146,247	-	9,533,937	1,414,622	11,341,026
Committed	333,628	-	-	423,633	-	-	757,261
Total fund balances	584,338	510	147,247	423,633	9,533,937	1,414,622	12,104,287
Total liabilities and fund balances	$ 604,471	$ 46,231	$ 1,017,386	$ 423,633	$ 9,576,947	$ 1,414,743	$ 13,083,411

	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Capital Facilities Fund	Capital Project Component Unit Fund	Non-Major Governmental Funds
Revenues							
Local Control Funding Formula	$ -	$ -	$ -	$ 300,000	$ -	$ -	$ 300,000
Federal sources	89,290	-	2,507,711	-	-	-	2,597,001
Other State sources	584,095	215,775	169,556	-	-	-	969,426
Other local sources	32,804	1,303	460,879	5,339	1,666,604	591,892	2,758,821
Total revenues	706,189	217,078	3,138,146	305,339	1,666,604	591,892	6,625,248
Expenditures							
Current							
Instruction	233,044	205,785	-	-	-	-	438,829
Instruction-related activities							
Supervision of instruction	57,989	-	-	-	-	-	57,989
School site administration	317,463	-	-	-	-	-	317,463
Pupil services							
Food services	-	-	2,844,618	-	-	-	2,844,618
All other pupil services	2,167	-	-	-	-	-	2,167
Administration							
All other administration	24,483	10,783	146,281	-	-	-	181,547
Plant services	1,330	-	-	41,574	20,946	2,421	66,271
Facility acquisition and construction	-	-	-	540,746	4,452,176	-	4,992,922
Total expenditures	636,476	216,568	2,990,899	582,320	4,473,122	2,421	8,901,806
Excess (Deficiency) of Revenues Over Expenditures	69,713	510	147,247	(276,981)	(2,806,518)	589,471	(2,276,558)
Other Financing Sources (Uses)							
Transfers in	6,251	-	-	187,750	-	-	194,001
Transfers out	-	-	-	-	(40,286)	-	(40,286)
Net Financing Sources (Uses)	6,251	-	-	187,750	(40,286)	-	153,715
Net Change in Fund Balances	75,964	510	147,247	(89,231)	(2,846,804)	589,471	(2,122,843)
Fund Balance - Beginning	508,374	-	-	512,864	12,380,741	825,151	14,227,130
Fund Balance - Ending	$ 584,338	$ 510	$ 147,247	$ 423,633	$ 9,533,937	$ 1,414,622	$ 12,104,287

Note 1 - Purpose of Schedules

Schedule of Expenditures of Federal Awards (SEFA)

Basis of Presentation
The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of the Morgan Hill Unified School District (the District) under programs of the federal government for the year ended June 30, 2020. The information is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Morgan Hill Unified School District, it is not intended to and does not present the financial position, changes in net assets (or net position or fund balance), or cash flows of the Morgan Hill Unified School District.

Summary of Significant Accounting Policies
Expenditures reported in the schedule are reported on the modified accrual basis of accounting. When applicable, such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. No federal financial assistance has been provided to a subrecipient.

Indirect Cost Rate
The District has not elected to use the ten percent de minimis cost rate.

Food Donation
Nonmonetary assistance is reported in this schedule at the fair market value of the commodities received and disbursed.

SEFA Reconciliation
The accompanying schedule of expenditures of Federal awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The District has not elected to use the ten percent de minimis cost rate as covered in Section 200.414 Indirect (F&A) costs of the Uniform Guidance.

Description	CFDA Number	Amount
Total Federal Revenues reported on the financial statements		$ 7,438,722
Build America Bonds interest subsidy is excluded from the provisions of Uniform Guidance, therefore, is not presented by the District on the Schedule of Expenditures of Federal Awards.	N/A	(764,428)
Total Schedule of Expenditures of Federal Awards		$ 6,674,294

Local Education Agency Organization Structure

This schedule provides information about the District's boundaries and schools operated, members of the governing board, and members of the administration.

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

The schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of Education Code Sections 47612and 47612.5, if applicable.

Districts must maintain their instructional minutes at the 1986-87 requirements, as required by Education Code Section 46201.5.

Due to school closures caused by COVID-19, the District filed the COVID-19 School Closure Certification certifying that schools were closed for 54 days due to the pandemic. As a result, the District received credit for these 54 days in meeting the annual instructional days requirement. In addition, planned minutes covered by the COVID-19 School Certification were included in the Actual Minutes column but were not actually offered due to the COVID-19 school closure.

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

Schedule of Charter Schools

This schedule lists all Charter Schools chartered by the Morgan Hill Unified School District, and displays information for each Charter School on whether or not the Charter School is included in the Morgan Hill Unified School District audit.

Non-Major Governmental Funds - Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances

The Non-Major Governmental Funds Combining Balance Sheet and Combining Statement of Revenues, Expenditures and Changes in Fund Balances is included to provide information regarding the individual funds that have been included in the Non-Major Governmental Funds column on the Governmental Funds Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances.

Independent Auditor's Reports
June 30, 2020

Morgan Hill Unified School District

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Governing Board
Morgan Hill Unified School District
Morgan Hill, California

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Morgan Hill Unified School District, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise Morgan Hill Unified School District's basic financial statements and have issued our report thereon dated January 6, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Morgan Hill Unified School District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Morgan Hill Unified School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Morgan Hill Unified School District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the Morgan Hill Unified School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Eide Bailly LLP

Menlo Park, California
January 6, 2021

CPAs & BUSINESS ADVISORS

Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance Required by the Uniform Guidance

To the Governing Board
Morgan Hill Unified School District
Morgan Hill, California

Report on Compliance for Each Major Federal Program

We have audited the Morgan Hill Unified School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Morgan Hill Unified School District's major federal programs for the year ended June 30, 2020. The Morgan Hill Unified School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility
Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility
Our responsibility is to express an opinion on compliance for each of the Morgan Hill Unified School District's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 the Morgan Hill Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Morgan Hill Unified School District's compliance.

Opinion on Each Major Federal Program
In our opinion, the Morgan Hill Unified School District's complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

Report on Internal Control over Compliance

Management of the Morgan Hill Unified School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Morgan Hill Unified School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Morgan Hill Unified School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Eide Bailly LLP

Menlo Park, California
January 6, 2021

Independent Auditor's Report on State Compliance

To the Governing Board
Morgan Hill Unified School District
Morgan Hill, California

Report on State Compliance

We have audited the Morgan Hill Unified School District's (the District) compliance with the types of compliance requirements described in the *2019-2020 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting,* applicable to the state laws and regulations listed in the table below for the year ended June 30, 2020.

Management's Responsibility

Management is responsible for compliance with the state laws and regulations as identified in the table below.

Auditor's Responsibility

Our responsibility is to express an opinion on the District's compliance with state laws and regulations based on our audit of the types of compliance requirements referred to below. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of the *2019-2020 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements listed below has occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on state compliance. However, our audit does not provide a legal determination of the District's compliance.

Compliance Requirements Tested

In connection with the audit referred to above, we selected and tested transactions and records to determine the District's compliance with laws and regulations applicable to the following items:

	Procedures Performed
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	No, see below
Continuation Education	Yes
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	No, see below
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	No, see below
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Apprenticeship: Related and Supplemental Instruction	No, see below
Comprehensive School Safety Plan	Yes
District of Choice	No, see below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
California Clean Energy Jobs Act	Yes
After/Before School Education and Safety Program:	
General Requirements	Yes
After School	Yes
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No, see below
CHARTER SCHOOLS	
Attendance	No, see below
Mode of Instruction	No, see below
Nonclassroom-Based Instruction/Independent Study for Charter Schools	No, see below
Determination of Funding for Nonclassroom-Based Instruction	No, see below
Annual Instruction Minutes Classroom-Based	No, see below
Charter School Facility Grant Program	

The District's independent study ADA is below testing threshold; therefore, we did not perform procedures related to the independent study program.

The District did not offer an Early Retirement Incentive program, Juvenile Court schools, Middle or Early College High Schools program, Apprenticeship Related and Supplemental Instruction, District of Choice, Before School Education and Safety program, and Independent Study-Course Based program during the current year; therefore, we did not perform procedures related to these programs.

The Charter School is independent of the District; therefore, we did not perform any procedures related to charter schools.

Eide Bailly LLP

Menlo Park, California
January 6, 2021

FINANCIAL STATEMENTS

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP.	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None Reported
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major program:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None Reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516:	No

Identification of major programs:

Name of Federal Program or Cluster	CFDA Number
Special Education Cluster	84.027, 84.027A, 84.173, 84.173A

Dollar threshold used to distinguish between type A and type B programs:	$750,000
Auditee qualified as low-risk auditee?	Yes

STATE COMPLIANCE

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

None reported.

None reported.

None reported.

There were no audit findings reported in the prior year's schedule of financial statement findings.