

Federal Awards Findings and Questioned Costs83
State Compliance Findings and Questioned Costs84
Summary Schedule of Prior Audit Findings.....85



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 Morgan Hill Unified School District (District) as of and for the year ended June 30, 2021, 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, 2021, 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.

Emphasis of Matter – Change in Accounting Principle

As discussed in Notes 1 and 17 to the financial statements, the District has adopted the provisions of GASB Statement No. 84, *Fiduciary Activities*, which has resulted in a restatement of the net position and fund balance as of July 1, 2020. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-13 and the 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 on pages 63-72, 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 District's financial statements. The combining non-major governmental 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 non-major governmental 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 non-major governmental 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 11, 2022 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.

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP". The signature is written in black ink and is positioned above the typed name and date.

Menlo Park, California
January 11, 2022



MORGAN HILL UNIFIED SCHOOL DISTRICT

15600 Concord Circle, Morgan Hill, CA 95037 | Ph: 408-201-6000 | Fax: 408-825-6257 | www.mhusd.org

Management's Discussion and Analysis

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, 2021. 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.

District Overview

The Morgan Hill Unified School District (MHUSD) encompasses nearly 300 square miles and serves the ethnically diverse population of Morgan Hill, San Martin, and a small portion of South San Jose.

The District serves approximately 8,500 students and is composed of six elementary schools (TK-5), two elementary/middle schools (K-8), one Dual Immersion magnet program (K-8), two middle schools (6-8), two comprehensive high schools (9-12), one continuation high school and a community adult school. We not only offer our students an exceptional education in the classroom, but we also offer an array of extracurricular opportunities as well.

Our Vision

All students will receive an excellent education and be empowered to succeed in school. Our students will be prepared to achieve in our diverse, global society and to make meaningful contributions in their community. Students will become critical thinkers and problem solvers who can thrive in the challenges of the 21st Century.

Our Mission

The Morgan Hill Unified School District's central purpose is to educate students. In partnership with parents and the community, we create learning environments where all students learn and are empowered to achieve their unique potential. We model and nurture civility, respect, compassion, personal responsibility, curiosity and integrity in an environment of diversity, equity, and service.

Financial Highlights

Morgan Hill Unified School District
Statement of Activities
Year Ended June 30, 2021

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Position
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities				
Instruction	\$ 66,054,039	\$ 13,269	\$ 14,439,880	\$ (51,600,890)
Instruction-related activities				
Supervision of instruction	2,988,175	-	612,405	(2,375,770)
Instructional library, media, and technology	429,322	153	30,098	(399,071)
School site administration	8,650,203	78	955,003	(7,695,122)
Pupil services				
Home-to-school transportation	3,186,207	18,315	1,177,500	(1,990,392)
Food services	3,182,082	5,724	3,963,857	787,499
All other pupil services	6,047,078	360	1,887,431	(4,159,287)
Administration				
Data processing	1,804,270	48	7,896	(1,796,326)
All other administration	5,250,640	160	641,852	(4,608,628)
Plant services	10,276,378	4,270	991,194	(9,280,914)
Ancillary services	1,295,693	-	594,883	(700,810)
Community services	1,547	-	-	(1,547)
Interest on long-term liabilities	5,104,178	-	-	(5,104,178)
Other outgo	4,453,060	685,652	542,092	(3,225,316)
	<u>\$ 118,722,872</u>	<u>\$ 728,029</u>	<u>\$ 25,844,091</u>	<u>\$ (92,150,752)</u>
General Revenues and Subventions				
Property taxes, levied for general purposes				65,717,164
Property taxes, levied for debt service				4,835,951
Taxes levied for other specific purposes				3,414,363
Federal and State aid not restricted to specific purposes				17,568,053
Interest and investment earnings				63,847
Interagency revenues				165,258
Miscellaneous				1,930,755
				<u>93,695,391</u>
				1,544,639
Change in Net Position				1,544,639
Net Position - Beginning, as restated				<u>122,526,582</u>
Net Position - Ending				<u>\$ 124,071,221</u>

Morgan Hill Unified School District
Balance Sheet – Governmental Funds
June 30, 2021

	General Fund	Building Fund	Capital Facilities Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
Assets						
Deposits and investments	\$ 41,658,790	\$ 28,479,455	\$ 10,980,966	\$ 2,616,582	\$ 4,558,185	\$ 88,293,978
Receivables	13,684,314	39,930	19,374	1,938	659,039	14,404,595
Due from other funds	184,530	-	-	-	-	184,530
Prepaid expenditures	25,278	-	-	-	-	25,278
Total assets	\$ 55,552,912	\$ 28,519,385	\$ 11,000,340	\$ 2,618,520	\$ 5,217,224	\$ 102,908,381
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ 4,723,956	\$ 1,718,217	\$ 164	\$ 456	\$ 103,873	\$ 6,546,666
Due to other funds	-	-	45,239	-	139,291	184,530
Unearned revenue	2,285,028	-	-	-	-	2,285,028
Total liabilities	7,008,984	1,718,217	45,403	456	243,164	9,016,224
Fund Balances						
Nonspendable	39,778	-	-	-	6,000	45,778
Restricted	8,193,960	16,362,807	10,954,937	2,618,064	4,264,829	42,394,597
Committed	-	-	-	-	703,231	703,231
Assigned	7,548,284	10,438,361	-	-	-	17,986,645
Unassigned	32,761,906	-	-	-	-	32,761,906
Total fund balances	48,543,928	26,801,168	10,954,937	2,618,064	4,974,060	93,892,157
Total liabilities and fund balances	\$ 55,552,912	\$ 28,519,385	\$ 11,000,340	\$ 2,618,520	\$ 5,217,224	\$ 102,908,381

Morgan Hill Unified School District
 Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
 June 30, 2021

Total Fund Balance - Governmental Funds		\$ 93,892,157
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	\$ 395,275,223	
Accumulated depreciation is	<u>(99,894,944)</u>	
Net capital assets		295,380,279
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.		
		(1,823,673)
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		
Other postemployment benefits (OPEB)	4,769,461	
Net pension liability	<u>21,584,387</u>	
Total deferred outflows of resources		26,353,848
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	(8,210,050)	
Net pension obligation	<u>(4,984,213)</u>	
Total deferred inflows of resources		(13,194,263)
Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.		
		(97,261,912)
The District's OPEB liability is not due and payable in the current period, and is not reported as a liability in the funds.		
		(49,227,558)
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	(116,352,556)	
Certificates of participation, including unamortized discounts	(13,421,967)	
Compensated absences (vacations)	<u>(273,134)</u>	
Total long-term liabilities		<u>(130,047,657)</u>
Total net position - governmental activities		<u>\$ 124,071,221</u>

Morgan Hill Unified School District
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
Year Ended June 30, 2021

	General Fund	Building Fund	Capital Facilities Fund
Revenues			
Local control funding formula	\$ 80,780,793	\$ -	\$ -
Federal sources	8,680,539	703,549	-
Other State sources	11,600,856	-	-
Other local sources	5,464,941	200,794	1,542,024
Total revenues	<u>106,527,129</u>	<u>904,343</u>	<u>1,542,024</u>
Expenditures			
Current			
Instruction	57,014,891	-	-
Instruction-related activities			
Supervision of instruction	2,608,981	-	-
Instructional library, media, and technology	328,970	-	-
School site administration	7,200,969	-	-
Pupil services			
Home-to-school transportation	2,502,330	-	-
Food services	369,601	-	-
All other pupil services	5,617,272	-	-
Administration			
Data processing	1,495,843	-	-
All other administration	4,705,384	-	-
Plant services	8,881,496	87,076	16,749
Ancillary services	686,394	-	-
Community services	1,446	-	-
Other outgo	4,453,060	-	-
Capital outlay	78,398	18,493,615	59,036
Debt service			
Principal	-	-	-
Interest and other	-	958,855	-
Total expenditures	<u>95,945,035</u>	<u>19,539,546</u>	<u>75,785</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>10,582,094</u>	<u>(18,635,203)</u>	<u>1,466,239</u>
Other Financing Sources (Uses)			
Transfers in	45,239	412,794	-
Transfers out	(422,033)	-	(45,239)
Net Financing Sources (Uses)	<u>(376,794)</u>	<u>412,794</u>	<u>(45,239)</u>
Net Change in Fund Balances	10,205,300	(18,222,409)	1,421,000
Fund Balance - Beginning, as restated	38,338,628	45,023,577	9,533,937
Fund Balance - Ending	<u>\$ 48,543,928</u>	<u>\$ 26,801,168</u>	<u>\$ 10,954,937</u>

Morgan Hill Unified School District
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
Year Ended June 30, 2021

	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
Revenues			
Local control funding formula	\$ -	\$ -	\$ 80,780,793
Federal sources	-	2,988,740	12,372,828
Other State sources	20,598	1,276,816	12,898,270
Other local sources	4,707,138	1,372,040	13,286,937
Total revenues	<u>4,727,736</u>	<u>5,637,596</u>	<u>119,338,828</u>
Expenditures			
Current			
Instruction	-	354,021	57,368,912
Instruction-related activities			
Supervision of instruction	-	57,404	2,666,385
Instructional library, media, and technology	-	-	328,970
School site administration	-	327,898	7,528,867
Pupil services			
Home-to-school transportation	-	-	2,502,330
Food services	-	2,552,060	2,921,661
All other pupil services	-	13,635	5,630,907
Administration			
Data processing	-	-	1,495,843
All other administration	-	148,255	4,853,639
Plant services	-	41,760	9,027,081
Ancillary services	-	506,484	1,192,878
Community services	-	-	1,446
Other outgo	-	-	4,453,060
Capital outlay	-	17,543	18,648,592
Debt service			
Principal	8,950,000	-	8,950,000
Interest and other	4,542,838	-	5,501,693
Total expenditures	<u>13,492,838</u>	<u>4,019,060</u>	<u>133,072,264</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(8,765,102)</u>	<u>1,618,536</u>	<u>(13,733,436)</u>
Other Financing Sources (Uses)			
Transfers in	-	9,239	467,272
Transfers out	-	-	(467,272)
Net Financing Sources (Uses)	<u>-</u>	<u>9,239</u>	<u>-</u>
Net Change in Fund Balances	<u>(8,765,102)</u>	<u>1,627,775</u>	<u>(13,733,436)</u>
Fund Balance - Beginning, as restated	<u>11,383,166</u>	<u>3,346,285</u>	<u>107,625,593</u>
Fund Balance - Ending	<u>\$ 2,618,064</u>	<u>\$ 4,974,060</u>	<u>\$ 93,892,157</u>

Morgan Hill Unified School District

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
Year Ended June 30, 2021

Total Net Change in Fund Balances - Governmental Funds \$ (13,733,436)

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	\$ (5,451,322)	
Capital outlays	<u>18,348,205</u>	
Net expense adjustment		12,896,883

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. 27,354

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.

(5,843,596)

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.

(1,150,081)

Morgan Hill Unified School District

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
Year Ended June 30, 2021

Deferred charge on refunding (the difference between the reacquisition price and 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.	(79,585)
Governmental funds report the effect of premiums, discounts, and the deferred charge 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	8,950,000
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.	<u>135,942</u>
Change in net position of governmental activities	<u>\$ 1,544,639</u>

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.

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. All the District's funds are governmental funds

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.

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).

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.

- **Student Activity Fund** The Student Activity Fund is used to account separately for the operating activities of the associated student body accounts that are not fiduciary in nature, including student clubs, general operations, athletics, and other student body activities.

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

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 fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major governmental funds are aggregated and presented in a single column.

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.

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.

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.

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. The weighted average maturity is less than one year.

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, 2021.

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, 2021, the District's bank balance of approximately \$9.9 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.

Note 4 - Receivables

Receivables at June 30, 2021, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Building Fund	Capital Facilities Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
Federal Government						
Categorical aid	\$ 2,239,519	\$ -	\$ -	\$ -	\$ 488,004	\$ 2,727,523
State Government						
LCFF apportionment	9,504,547	-	-	-	-	9,504,547
Categorical aid	754,600	-	-	-	35,671	790,271
Lottery	550,683	-	-	-	-	550,683
Local Government						
Interest	79,598	1,752	19,374	1,938	100,173	202,835
Other local sources	555,367	38,178	-	-	35,191	628,736
Total	\$ 13,684,314	\$ 39,930	\$ 19,374	\$ 1,938	\$ 659,039	\$ 14,404,595

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

Governmental Activities	
Instruction	\$ 3,275,331
Supervision of instruction	152,230
Instructional library, media, and technology	18,782
School site administration	429,841
Home-to-school transportation	142,864
Food services	166,805
All other pupil services	321,482
Ancillary Services	66,018
Community Services	83
Data processing	277,106
All other administration	85,401
Plant services	<u>515,379</u>
 Total depreciation expenses governmental activities	 <u><u>\$ 5,451,322</u></u>

Note 6 - Interfund Transactions

Interfund Receivables/Payables (Due To/Due From)

	Due From
Due To	General Fund
Capital Facilities Fund	\$ 45,239
Non-Major Governmental Funds	<u>139,291</u>
Total	<u><u>\$ 184,530</u></u>

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, 2021, consisted of the following:

Transfer To	Transfer From			Total
	General Fund	Building Fund	Non-Major Governmental Funds	
General Fund	\$ -	\$ 412,794	\$ 9,239	\$ 422,033
Capital Facilities Fund	45,239	-	-	45,239
Total	<u>\$ 45,239</u>	<u>\$ 412,794</u>	<u>\$ 9,239</u>	<u>\$ 467,272</u>

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. \$ 45,239

General Fund transferred to Adult Education Fund to serve concurrently enrolled students. 9,239

General Fund transferred to Building Fund to cover the cost of the solar programs. 412,794

Total \$ 467,272

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 deferred amounts on refunding at June 30, 2021 is zero.

Deferred amount on refunding at June 30, 2021 is as follows:

	Balance July 1, 2020	Additions	Deductions	Balance June 30, 2021
Deferred amounts on refunding	<u>\$ 79,585</u>	<u>\$ -</u>	<u>\$ (79,585)</u>	<u>\$ -</u>

Note 8 - Accounts Payable

Accounts payable at June 30, 2021, consisted of the following:

	General Fund	Building Fund	Capital Facilities Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
Vendor payables	\$ 3,321,540	\$ 1,718,217	\$ 164	\$ 456	\$ 73,464	\$ 5,113,841
LCFF apportionment	1,017,439	-	-	-	-	1,017,439
Salaries and benefits	384,977	-	-	-	30,409	415,386
Total	\$ 4,723,956	\$ 1,718,217	\$ 164	\$ 456	\$ 103,873	\$ 6,546,666

Note 9 - Unearned Revenue

Unearned revenue at June 30, 2021, consists of the following:

	General Fund
Federal financial assistance	\$ 172,196
State categorical aid	1,479,652
Other local	633,180
Total	\$ 2,285,028

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, 2020	Additions	Deductions	Balance June 30, 2021	Due in One Year
Long-Term Liabilities					
General obligation bonds	\$ 118,685,000	\$ -	\$ (8,950,000)	\$ 109,735,000	\$ 445,000
Certificates of participation	13,505,000	-	-	13,505,000	-
Unamortized debt premiums	6,972,554	-	(354,998)	6,617,556	264,398
Unamortized debt discounts	(96,873)	-	13,840	(83,033)	13,840
Compensated absences	300,488	54,123	(81,477)	273,134	81,940
Total	\$ 139,366,169	\$ 54,123	\$ (9,372,635)	\$ 130,047,657	\$ 805,178

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.

General Obligation Bonds

The outstanding general obligation bonded debt is as follows:

Issuance Date	Final Maturity Date	Interest Rate	Original Issue	Bonds		Bonds Outstanding June 30, 2021
				Outstanding July 1, 2020	Redeemed	
2012	2042	2.00%-3.25%	\$ 55,000,000	\$ 45,610,000	\$ (355,000)	\$ 45,255,000
2015	2020	2.00%-5.00%	3,925,000	570,000	(570,000)	-
2015	2020	0.73%-2.31%	31,805,000	4,375,000	(4,375,000)	-
2017	2047	2.69%-5.00%	80,000,000	68,130,000	(3,650,000)	64,480,000
				<u>\$ 118,685,000</u>	<u>\$ (8,950,000)</u>	109,735,000
					Unamortized premium	<u>6,617,556</u>
					Total	<u>\$ 116,352,556</u>

Debt Service Requirements to Maturity

The bonds mature through 2049 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
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	875,000	4,252,238	5,127,238
2027-2031	6,555,000	20,467,930	27,022,930
2032-2036	15,215,000	18,585,044	33,800,044
2037-2041	25,260,000	14,716,583	39,976,583
2042-2046	39,025,000	8,253,600	47,278,600
2047-2049	20,425,000	832,300	21,257,300
Total	\$ 109,735,000	\$ 84,441,197	\$ 194,176,197

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, 2021, the principal balance outstanding was \$13,505,000. The certificates mature through 2027 as follows:

Year Ending June 30,	Principal	Interest	Total
2022	\$ -	\$ 958,855	\$ 958,855
2023	-	958,855	958,855
2024	-	958,855	958,855
2025	-	958,855	958,855
2026	-	958,855	958,855
2027	13,505,000	958,855	14,463,855
Total	\$ 13,505,000	\$ 5,753,130	\$ 19,258,130

Compensated Absences

Compensated absences (unpaid employee vacation) for the District at June 30, 2021 amounted to \$273,134.

Note 11 - Total Other Postemployment Benefit (OPEB) Liability

For the fiscal year ended June 30, 2021, 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	\$ 49,227,558	\$ 4,769,461	\$ 8,210,050	\$ 1,150,081

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
	<hr/>
Total	734
	<hr/> <hr/>

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 2020-2021, the District contributed \$1,184,724 to the Plan, all of which was used for current premiums.

Total OPEB Liability of the District

The District's total OPEB liability of \$49,227,558 was measured as of June 30, 2020, 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	2.66 percent, net of OPEB plan investment expense, including inflation
Healthcare cost trend rates	4.00 percent for 2020

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

	<u>Total OPEB Liability</u>
Balance, June 30, 2019	\$ 46,343,348
Service cost	1,626,960
Interest	1,277,155
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions or other inputs	1,114,453
Benefit payments	<u>(1,134,358)</u>
Net change in total OPEB liability	<u>2,884,210</u>
Balance, June 30, 2020	<u>\$ 49,227,558</u>

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 (1.66%)	\$ 59,239,469
Current discount rate (2.66%)	49,227,558
1% increase (3.66%)	41,549,546

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%)	\$ 41,450,038
Current healthcare cost trend rate (4%)	49,227,558
1% increase (5%)	59,406,572

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

For the year ended June 30, 2021, the District recognized OPEB expense of \$1,150,081. At June 30, 2021, 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	\$ 1,184,724	\$ -
Differences between expected and actual experience	-	5,732,152
Changes of assumptions	3,584,737	2,477,898
Total	\$ 4,769,461	\$ 8,210,050

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.

Note 12 - Fund Balances

Fund balances are composed of the following elements:

	General Fund	Building Fund	Capital Facilities Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
Nonspendable						
Revolving cash	\$ 14,500	\$ -	\$ -	\$ -	\$ 6,000	\$ 20,500
Prepaid expenditures	25,278	-	-	-	-	25,278
Total nonspendable	39,778	-	-	-	6,000	45,778
Restricted						
Legally restricted programs	8,193,960	-	-	-	-	8,193,960
Student activity	-	-	-	-	846,140	846,140
Adult educational program	-	-	-	-	240,766	240,766
Food program	-	-	-	-	1,099,207	1,099,207
Capital projects	-	16,362,807	10,954,937	-	2,078,716	29,396,460
Debt services	-	-	-	2,618,064	-	2,618,064
Total restricted	8,193,960	16,362,807	10,954,937	2,618,064	4,264,829	42,394,597
Committed						
Adult education program	-	-	-	-	326,387	326,387
Deferred maintenance program	-	-	-	-	376,844	376,844
Total committed	-	-	-	-	703,231	703,231
Assigned						
Enrichment programs	6,934,396	-	-	-	-	6,934,396
Retiree benefits	613,888	-	-	-	-	613,888
Capital Projects	-	10,438,361	-	-	-	10,438,361
Total assigned	7,548,284	10,438,361	-	-	-	17,986,645
Unassigned						
Reserve for economic uncertainties	2,878,351	-	-	-	-	2,878,351
Remaining unassigned	29,883,555	-	-	-	-	29,883,555
Total unassigned	32,761,906	-	-	-	-	32,761,906
Total	<u>\$ 48,543,928</u>	<u>\$ 26,801,168</u>	<u>\$ 10,954,937</u>	<u>\$ 2,618,064</u>	<u>\$ 4,974,060</u>	<u>\$ 93,892,157</u>

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, 2021, 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 2021, 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, 2021, 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	\$ 66,921,307	\$ 16,369,586	\$ 3,343,034	\$ 9,069,356
CalPERS	30,340,605	5,214,801	1,641,179	5,920,095
Total	\$ 97,261,912	\$ 21,584,387	\$ 4,984,213	\$ 14,989,451

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, 2019, 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 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:

<u>Year Ended June 30,</u>	<u>Deferred Outflows/(Inflows) of Resources</u>
2022	\$ (970,004)
2023	541,629
2024	1,080,608
2025	937,432
Total	<u>\$ 1,589,665</u>

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:

<u>Year Ended June 30,</u>	<u>Deferred Outflows/(Inflows) of Resources</u>
2022	\$ 1,793,416
2023	1,577,851
2024	1,835,076
2025	(156,483)
2026	95,942
Thereafter	(17,937)
Total	<u>\$ 5,127,865</u>

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

As of June 30, 2021, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$30,340,605. The net pension liability was measured as of June 30, 2020. 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, 2020 and June 30, 2019, respectively was 0.0989 percent and 0.1033 percent, resulting in a net decrease in the proportionate share of 0.0044 percent.

For the year ended June 30, 2021, the District recognized pension expense of \$5,920,095. At June 30, 2021, 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	\$ 2,836,833	\$ -
Change in proportion and differences between contributions made and District's proportionate share of contributions	130,313	1,641,179
Differences between projected and actual earnings on pension plan investments	631,594	-
Differences between expected and actual experience in the measurement of the total pension liability	1,504,801	-
Changes of assumptions	111,260	-
Total	\$ 5,214,801	\$ 1,641,179

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
2022	\$ (236,356)
2023	210,821
2024	366,441
2025	290,688
Total	\$ 631,594

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
2022	\$ 600,892
2023	(98,736)
2024	(358,249)
2025	(38,712)
Total	<u>\$ 105,195</u>

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, 2019, and rolling forward the total pension liability to June 30, 2020. The financial reporting actuarial valuation as of June 30, 2019, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2019
Measurement date	June 30, 2020
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.

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 \$4,832,823 (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.

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, 2021.

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.

<u>Member</u>	<u>Office</u>	<u>Term Expires</u>
John Horner	President	2022
Carol Ann Gittens	Member	2022
Heather Orosco	Member	2022
Wendy Sullivan	Member	2022
Ivan Rosales Montes	Member	2024
Mary Patterson	Member	2024
Adam Escoto	Member	2024

Administration

Dr. Carmen Garcia	Superintendent
Kirsten Perez	Deputy Superintendent
Sharon Fawn Myers	Assistant Superintendent of Human Resources
Pilar Vazquez-Vialva	Assistant Superintendent of Educational Services

Morgan Hill Unified School District

Schedule of Instructional Time

Year Ended June 30, 2021

Grade Level	Number of Actual Days		Number of Days Credited Form J-13A	Total Days Offered	Status
	Traditional Calendar	Multitrack Calendar			
Kindergarten	180	N/A	-	180	Complied
Grades 1 - 3					
Grade 1	180	N/A	-	180	Complied
Grade 2	180	N/A	-	180	Complied
Grade 3	180	N/A	-	180	Complied
Grades 4 - 6					
Grade 4	180	N/A	-	180	Complied
Grade 5	180	N/A	-	180	Complied
Grade 6	180	N/A	-	180	Complied
Grades 7 - 8					
Grade 7	180	N/A	-	180	Complied
Grade 8	180	N/A	-	180	Complied
Grades 9 - 12					
Grade 9	180	N/A	-	180	Complied
Grade 10	180	N/A	-	180	Complied
Grade 11	180	N/A	-	180	Complied
Grade 12	180	N/A	-	180	Complied

Morgan Hill Unified School District
 Reconciliation of Annual Financial and Budget Report with Audited Financial Statements
 Year Ended June 30, 2021

	General Fund	Special Reserve Fund for Other Than Capital Outlay Projects	Special Reserve Fund for Postemployment Benefits
Fund Balance			
Balance, June 30, 2021, Unaudited Actuals	\$ 44,074,266	\$ 3,855,774	\$ 613,888
Increase in cash in bank			
as a result of reconciliation performed by the District subsequent to the submission of Unaudited Actuals	-	-	-
As a result of the implementation of GASB Statement No. 54, Fund 17 and Fund 20 are combined into the financial statement	4,469,662	(3,855,774)	(613,888)
Balance, June 30, 2021, Audited Financial Statements	\$ 48,543,928	\$ -	\$ -

See Notes to Supplementary Information

Morgan Hill Unified School District
Schedule of Financial Trends and Analysis
Year Ended June 30, 2021

	(Budget) 2022 ¹	2021	2020	2019
General Fund				
Revenues	\$ 100,605,349	\$ 106,527,129	\$ 99,009,440	\$ 99,539,648
Other sources	2,827,650	45,239	40,286	82,319
Total Revenues and Other Sources	<u>103,432,999</u>	<u>106,572,368</u>	<u>99,049,726</u>	<u>99,621,967</u>
Expenditures	105,663,255	95,945,035	94,314,943	95,536,295
Other uses and transfers out	2,910,759	422,033	606,795	2,418,468
Total Expenditures and Other Uses	<u>108,574,014</u>	<u>96,367,068</u>	<u>94,921,738</u>	<u>97,954,763</u>
Increase/(Decrease) in Fund Balance	<u>(5,141,015)</u>	<u>10,205,300</u>	<u>4,127,988</u>	<u>1,667,204</u>
Ending Fund Balance	<u>\$ 43,402,913</u>	<u>\$ 48,543,928</u>	<u>\$ 38,338,628</u>	<u>\$34,210,640</u>
Available Reserves ²	<u>\$ 29,435,180</u>	<u>\$ 32,761,906</u>	<u>\$28,376,480</u>	<u>\$20,390,091</u>
Available Reserves as a Percentage of Total Outgo	<u>27.11%</u>	<u>34.00%</u>	<u>29.89%</u>	<u>20.82%</u>
Long-Term Liabilities ³	<u>\$ 129,242,479</u>	<u>\$ 130,047,657</u>	<u>\$ 139,366,169</u>	<u>\$ 156,522,958</u>
K-12 Average Daily Attendance at P-2 ⁴	<u>7,962</u>	<u>7,962</u>	<u>7,962</u>	<u>7,865</u>

The General Fund balance has increased by \$14,333,288 over the past two years. The fiscal year 2021-2022 budget projects a decrease of \$5,141,015 (11 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 the past three years but anticipates incurring an operating deficit during the 2021-2022 fiscal year. Total long-term liabilities have decreased by \$26,475,301 over the past two years.

Average daily attendance has increased by 97 over the past two years. ADA is anticipated to stay consistent during fiscal year 2021-2022.

¹ Budget 2022 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.

⁴ Due to Covid-19, 2021 ADA was not collected. 2020's ADA was used.

Morgan Hill Unified School District
Schedule of Charter Schools
Year Ended June 30, 2021

<u>Name of Charter School</u>	<u>Charter Number</u>	<u>Included in Audit Report</u>
The Charter School of Morgan Hill	0363	No

Morgan Hill Unified School District
Combining Balance Sheet – Non-Major Governmental Funds
June 30, 2021

	Student Activity Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Capital Project Fund	Total Non-Major Governmental Funds
Assets							
Deposits and investments	\$ 846,140	\$ 516,167	\$ 3,693	\$ 834,232	\$ 376,165	\$ 1,981,788	\$ 4,558,185
Receivables	-	80,586	13,239	467,457	679	97,078	659,039
Total assets	\$ 846,140	\$ 596,753	\$ 16,932	\$ 1,301,689	\$ 376,844	\$ 2,078,866	\$ 5,217,224
Liabilities and Fund Balances							
Liabilities							
Accounts payable	\$ -	\$ 8,472	\$ 10,501	\$ 84,750	\$ -	\$ 150	\$ 103,873
Due to other funds	-	16,128	6,431	116,732	-	-	139,291
Total liabilities	-	24,600	16,932	201,482	-	150	243,164
Fund Balances							
Nonspendable	-	5,000	-	1,000	-	-	6,000
Restricted	846,140	240,766	-	1,099,207	-	2,078,716	4,264,829
Committed	-	326,387	-	-	376,844	-	703,231
Total fund balances	846,140	572,153	-	1,100,207	376,844	2,078,716	4,974,060
Total liabilities and fund balances	\$ 846,140	\$ 596,753	\$ 16,932	\$ 1,301,689	\$ 376,844	\$ 2,078,866	\$ 5,217,224

Morgan Hill Unified School District

Combining Statement of Revenues, Expenditure, and Changes in Fund Balances – Non-Major Governmental Funds
Year Ended June 30, 2021

	Student Activity Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Capital Project Fund	Non-Major Governmental Funds
Revenues							
Federal sources	\$ -	\$ 96,977	\$ 4,961	\$ 2,886,802	\$ -	\$ -	\$ 2,988,740
Other State sources	-	577,690	81,650	617,476	-	-	1,276,816
Other local sources	576,689	2,058	178	116,507	2,872	673,736	1,372,040
Total revenues	576,689	676,725	86,789	3,620,785	2,872	673,736	5,637,596
Expenditures							
Current							
Instruction	-	271,626	82,395	-	-	-	354,021
Instruction-related activities							
Supervision of instruction	-	57,404	-	-	-	-	57,404
School site administration	-	327,898	-	-	-	-	327,898
Pupil services							
Food services	-	-	-	2,552,060	-	-	2,552,060
All other pupil services	-	13,635	-	-	-	-	13,635
Administration							
All other administration	-	27,586	4,904	115,765	-	-	148,255
Plant services	-	-	-	-	32,118	9,642	41,760
Ancillary services	506,484	-	-	-	-	-	506,484
Facility acquisition and construction	-	-	-	-	17,543	-	17,543
Debt service							
Principal	-	-	-	-	-	-	-
Interest and other	-	-	-	-	-	-	-
Total expenditures	506,484	698,149	87,299	2,667,825	49,661	9,642	4,019,060
Excess (Deficiency) of Revenues Over Expenditures	70,205	(21,424)	(510)	952,960	(46,789)	664,094	1,618,536
Other Financing Sources (Uses)							
Transfers in	-	9,239	-	-	-	-	9,239
Net Financing Sources (Uses)	-	9,239	-	-	-	-	9,239
Net Change in Fund Balances	70,205	(12,185)	(510)	952,960	(46,789)	664,094	1,627,775
Fund Balance - Beginning, as restated	775,935	584,338	510	147,247	423,633	1,414,622	3,346,285
Fund Balance - Ending	\$ 846,140	\$ 572,153	\$ -	\$ 1,100,207	\$ 376,844	\$ 2,078,716	\$ 4,974,060

See Notes to Supplementary Information

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, 2021. 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 position, or cash flows of 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.

	Federal Financial Assistance Listing/Federal CFDA Number	Amount
Description		
Total Federal Revenues reported on the financial statements		\$ 12,372,828
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.		(758,306)
Total Schedule of Expenditures of Federal Awards		\$ 11,614,522

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 Instructional Time

This schedule presents information on the number of instructional days offered by the District and whether the District complied with the provisions of *Education Code* Sections 43504.

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, 2021

Morgan Hill Unified School District



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 Morgan Hill Unified School District (District), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 11, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 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.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Menlo Park, California
January 11, 2022



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 Morgan Hill Unified School District's (District) 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 District's major federal programs for the year ended June 30, 2021. The 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 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 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 District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District 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, 2021.

Report on Internal Control over Compliance

Management of the 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 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 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.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Menlo Park, California
January 11, 2022



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 Morgan Hill Unified School District's (District) compliance with the types of compliance requirements described in the *2020-2021 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, 2021.

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 *2020-2021 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 and Distance Learning	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	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
K-3 Grade Span Adjustment	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
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	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	No, see below
Determination of Funding for Nonclassroom-Based Instruction	No, see below
Charter School Facility Grant Program	No, see below

Early Retirement Incentive

The District did not offer an Early Retirement Incentive Program during the current year; therefore, we did not perform procedures related to the Early Retirement Incentive Program.

Apprenticeship: Related and Supplemental Instruction

We did not perform Apprenticeship: Related and Supplemental Instruction procedures because the program is not offered by the District.

District of Choice

We did not perform District of Choice procedures because the program is not offered by the District.

Independent Study - Course Based

For the 2020-2021 school year, Independent Study – Course Based does not apply to School Districts as a result of distance learning, therefore, we did not perform any procedures related to the Independent Study – Course Based Program.

Charter Schools

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

Unmodified Opinion

In our opinion, the District complied, in all material respects, with the laws and regulations of the state programs referred to above for the year ended June 30, 2021.

The purpose of this report on state compliance is solely to describe the results of our testing based on the requirements of the *2020-2021 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Menlo Park, California
January 11, 2022

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(a):

Identification of major programs:

Name of Federal Program or Cluster	Federal Financial Assistance Listing/ Federal CFDA Number
Covid-19 - Coronavirus Relief Fund	21.019
Covid-19 - Emergency Stabilization Fund - ESSER, ESSER II, and GEER	84.425D, 84.425C
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.