



Financial Statements  
June 30, 2022

# Morgan Hill Unified School District

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## Independent Auditor's Report

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

### Report on the Audit of the Financial Statements

#### Opinions

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Morgan Hill Unified School District (District) as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying 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, 2022, 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.

#### Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

## ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, Budgetary Comparison Schedule – General Fund, 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 the District's Contributions for Pension, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

### ***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, combining non-major governmental fund financial statements, 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 basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 schedule of expenditures of federal awards, combining non-major governmental fund financial statements, and 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 our report dated on January 4, 2023, 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, and 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 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 address.

Menlo Park, California  
January 4, 2023



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

## **Management's Discussion and Analysis**

The discussion and analysis of Morgan Hill Unified School District's (District) financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2022. 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. 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 over 7,000 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

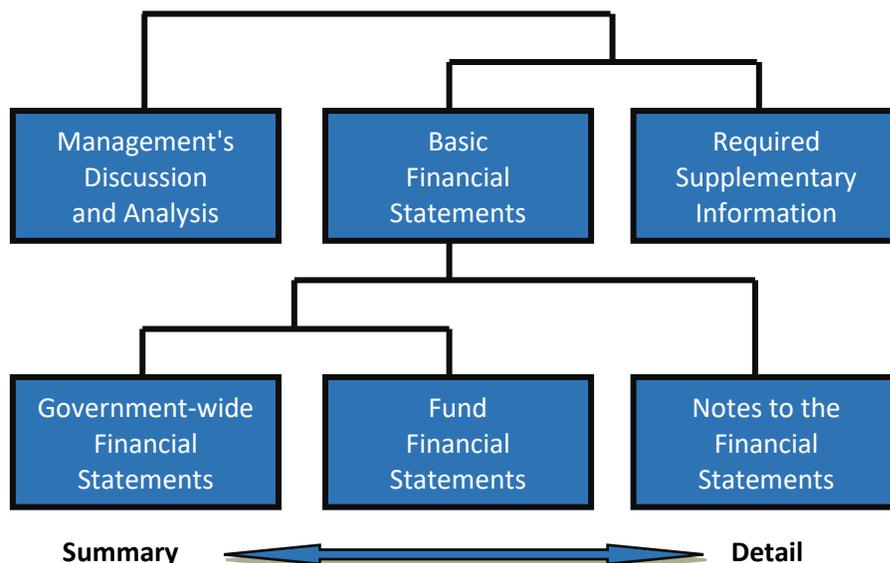
### Financial and Program Highlights

- The District's current and other assets increase by \$6,410,270 due to increase in COVID funding received from the California Department of Education.
- Capital assets decreased by \$4,447,825 mainly due to depreciation that exceed the current year's capital asset additions.
- The District's deferred outflows of resources decreased by \$3,389,307 mainly due to changes in the amounts amortized for pension and OPEB liabilities.
- The District's long-term obligations decreased by \$83,895,474 due to mark to market of the investments located with CalSTRS and CalPERS which decreased the District's net pension liabilities.
- The District's deferred inflows of resources increased by \$43,288,728 due to changes in the deferrals related to pension and OPEB discussed above.
- The District's Net Position increased by \$38,854,082 mainly due to increased funding from COVID grants and decreases in pension and OPEB liabilities.
- The District's budgeted a decrease of \$5,756,615 in general fund balance but due to COVID funding received, the general fund balance increased by \$4,620,969.

### Overview of the Financial Statements

This annual report consists of three parts – Management's Discussion and Analysis (this section), the Basic Financial Statements, and Required Supplementary Information. These statements are organized so the reader can understand the Morgan Hill Unified School District (the District) as a financial whole, an entire operating entity. These statements then proceed to provide an increasingly detailed look at specific financial activities.

### Components of the Financial Section



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

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

### **Reporting the District as A Whole**

#### **The Statement of Net Position and the Statement of Activities**

These two statements provide information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all the District's assets and liabilities using the accrual basis of accounting. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid. These statements report information on the District as a whole and its activities in a way that helps answer the question, "How did we do financially during 2021-2022?"

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

### **Reporting the School District's Most Significant Funds**

#### ***Fund Financial Statements***

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

## Governmental Funds

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

## Financial Analysis of the Government-Wide Statements

### The School District as a Whole

For the period ending June 30, 2022, the District's net position increased by \$38,854,082 to \$162,925,303. The District participates in both CalPERS and CalSTRS and therefore the aggregate net pension liability as of year-end was reflected on the financial statements (see Note 13 in the Annual Financial Report). The unrestricted net position (deficit) increased to (\$69,146,947) from (\$82,106,459). The positive increase in net position was related to COVID funding received from the State as well as investment earnings from reported by CalPERS and CalSTRS which decreased the District's share of the net pension liabilities.

**(Table 1)**  
**Comparative Condensed Statement of Net Position**

	Governmental Activities		Change	Percentage Change
	2022	2021		
Assets				
Current and other assets	\$ 109,134,121	\$ 102,723,851	\$ 6,410,270	6%
Capital assets	290,932,454	295,380,279	(4,447,825)	-2%
Total assets	400,066,575	398,104,130	1,962,445	0%
Deferred Outflows of Resources	22,964,541	26,353,848	(3,389,307)	-13%
Liabilities				
Current liabilities	10,981,169	10,655,367	325,802	3%
Long-term liabilities	192,641,653	276,537,127	(83,895,474)	-30%
Total liabilities	203,622,822	287,192,494	(83,569,672)	-29%
Deferred Inflows of Resources	56,482,991	13,194,263	43,288,728	328%
Net Position				
Net investment in capital assets	186,434,839	181,968,563	4,466,276	2%
Restricted	29,947,679	24,209,117	5,738,562	24%
Unrestricted	(53,457,215)	(82,106,459)	28,649,244	-35%
Total net position	\$ 162,925,303	\$ 124,071,221	\$ 38,854,082	31%

The District's net position increased by \$38,854,082 for this fiscal year (see Table 2). The District's charges for services increased by \$955,515 mainly due to increase in rental facility revenues due opening of many of the facilities after being shut due to COVID. The District's grants increased by \$1,069,595 mainly due to increase in COVID funding received from the state. The District's changes in instruction expenses in the amount of \$29,037,017 is mainly due to change in benefit terms for OPEB. The District no longer offer lifetime benefits and instead, benefits cease at age 65. Other changes in expenses were mainly due to changes in net pension and OPEB liabilities.

**(Table 2)**

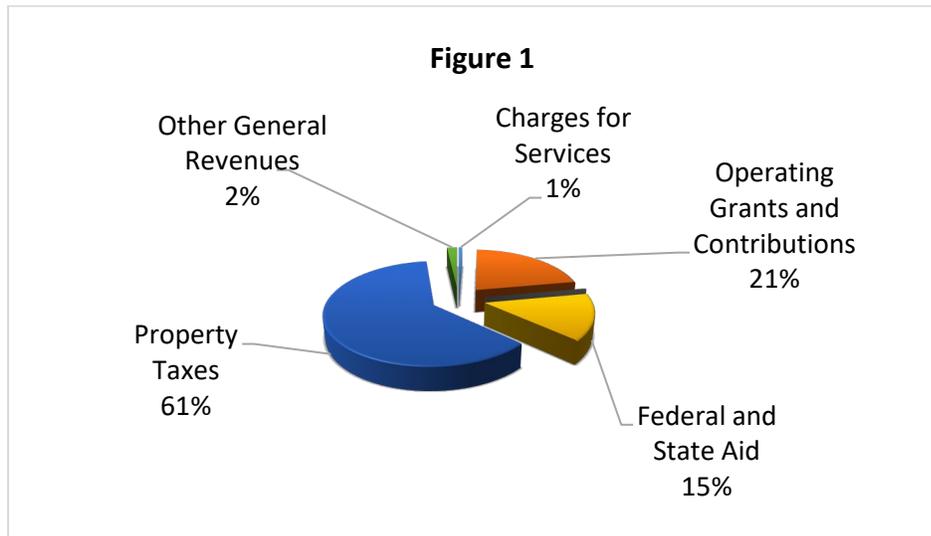
**Comparative Condensed Statement of Changes in Net Position**

	Governmental Activities		Change	Percentage Change
	2022	2021		
<b>Revenues</b>				
Program revenues				
Charges for services	\$ 1,683,544	\$ 728,029	\$ 955,515	131%
Operating grants and contributions	26,913,686	25,844,091	1,069,595	4%
General revenues				
Federal and State aid not restricted	25,523,776	23,642,791	1,880,985	8%
Property taxes	70,719,970	69,967,478	752,492	1%
Other general revenues	67,223	85,122	(17,899)	-21%
Total revenues	<u>124,908,199</u>	<u>120,267,511</u>	<u>4,640,688</u>	<u>4%</u>
<b>Expenses</b>				
Instruction-related	49,084,722	78,121,739	(29,037,017)	-37%
Pupil services	12,357,646	12,415,367	(57,721)	0%
Administration	4,756,695	7,054,910	(2,298,215)	-33%
Plant services	11,575,812	10,276,378	1,299,434	13%
All other services	10,435,995	10,854,478	(418,483)	-4%
Total expenses	<u>88,210,870</u>	<u>118,722,872</u>	<u>(30,512,002)</u>	<u>-26%</u>
Change in net position	<u>\$ 36,697,329</u>	<u>\$ 1,544,639</u>	<u>35,152,690</u>	<u>2276%</u>

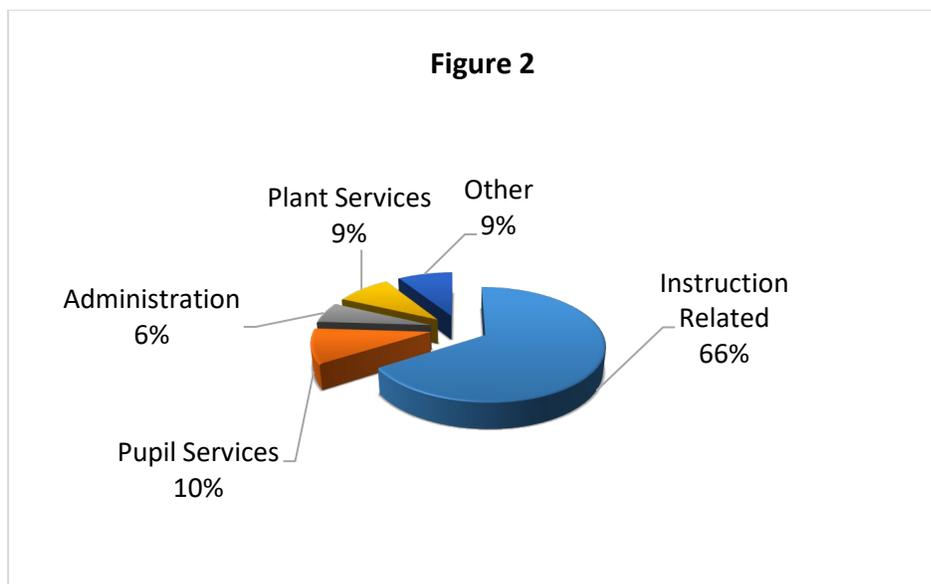
**Governmental Activities**

As reported in the Statement of Activities, the cost of all the District's governmental activities this year was \$86,054,117. The amount that our local taxpayers financed for these activities through property taxes was \$57,456,887 after charges for services and operating grants and contributions. Below is a depiction of the various types of revenues and expenses the District reported.

**Revenues for the 2021-2022 Fiscal Year**



**Expenses for the 2021-2022 Fiscal Year**



### **Financial Analysis of the Fund Statements**

The fund financial statements focus on individual parts of the District's operations in more detail than the government-wide statements. The District's individual fund statements provide information on inflows and outflows and balances of resources. The District's Governmental Funds reported a combined fund balance of \$99,969,208, an increase of \$6,077,051 from the previous fiscal year. This increase is primarily the result of COVID funding received from the state.

The general fund reported an increase of \$4,527,625 and as mentioned above, was the result of an increase in grant funding from COVID. The biggest increase in special revenue funds fund balance was reported in the Cafeteria fund which was the result of increased food service revenues after the kids returned back to their schools. The Building fund reported a decrease in fund balance for \$2,219,818 as the District continue to modernize its schools using Measure G funds.

### **General Fund Budgetary Highlights**

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

- Budget revisions to the adopted budget required after approval of the state budget.
- Budget revisions to update revenues to actual enrollment information and to update expenditures for staffing adjustments related to actual enrollment.
- Budget revisions to update revenues and expenses in compliance with current education code requirements.
- Other budget revisions are routine in nature, including adjustments to categorical revenues and expenditures based on final awards, and adjustments between expenditure categories for school and department budgets.

The District ended the year with a General Fund ending balance of \$48,695,235 (before inclusion of the special reserve funds for noncapital and postemployment benefits. The State recommends a minimum ending reserve for economic uncertainties of 3% of General Fund expenditures. The District's ending reserve was \$35,419,650.

For the 2023 fiscal year, the District's General Fund anticipates a decrease in fund balance of \$3,472,000. The District anticipates an increase in salaries and benefits in the amount of \$21,169,510 due to a one time increase approved by the District's governing board. Further, as the cost of living continues to increase in the bay area, much of non-salary expenditures are projected to increase by \$9,636,969. Enrollment at the beginning of the 2023 fiscal year was 8,005 which is a slight increase due to the expansion of the TK program. We continue to monitor the changes in the economy and changes in the District's enrollment.

**Capital Asset and Debt Administration**

**Capital Assets**

By the end of the 2021-2022 fiscal year, the District had an investment in capital assets for \$400,293,712 which was in a broad range of capital assets, including school buildings, athletic facilities, administrative buildings, site improvements, vehicles, and equipment. The capital assets net of depreciation was valued at \$290,932,454 at June 30, 2022 which is an increase of \$4.5 million from the previous year primarily due to completed bond projects (see Note 5 in the Financial Statements).

**(Table 3)**

	Governmental Activities	
	2022	2021
Capital Assets		
Land and construction in progress	\$ 29,524,319	\$ 32,806,652
Buildings and improvements	369,076,250	360,565,275
Equipment	1,693,142	1,903,296
Total	\$ 400,293,711	\$ 395,275,223

**Long-Term Liabilities**

As of June 30, 2022, the District had \$192,641,653 in long-term liabilities outstanding. The District participates in both CalPERS and CalSTRS and therefore the aggregate net pension liability as of year-end was reflected on the financial statements (see Note 13 in the Financial Statements). The District, in addition, administers a defined benefit OPEB plan (See Note 10 in the Financial Statements). More information on the District's other long-term obligations is discussed in Note 9.

**(Table 4)**

	Governmental Activities	
	2022	2021
Long-Term Liabilities		
General obligation bonds	\$ 109,290,000	\$ 109,735,000
Certificates of participation	13,505,000	13,505,000
Unamortized premiums/(discounts)	6,283,965	6,534,523
Compensated absences	246,059	273,134
Total OPEB liability	11,219,369	49,227,558
Aggregate net pension liability	52,097,260	97,261,912
Total	\$ 192,641,653	\$ 276,537,127

**Contacting the District's Financial Management**

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

Morgan Hill Unified School District  
Statement of Net Position  
June 30, 2022

	Governmental Activities
<b>Assets</b>	
Deposits and investments	\$ 102,055,043
Receivables	7,025,670
Prepaid expense	53,408
Capital assets not depreciated	29,524,319
Capital assets, net of accumulated depreciation	261,408,135
Total assets	400,066,575
<b>Deferred Outflows of Resources</b>	
Deferred outflows of resources related to OPEB	4,555,232
Deferred outflows of resources related to pensions	18,409,309
Total deferred outflows of resources	22,964,541
<b>Liabilities</b>	
Accounts payable	4,890,651
Interest payable	1,816,256
Unearned revenue	4,274,262
Long-term liabilities	
Long-term liabilities other than OPEB and pension	
Due within one year	892,056
Long-term liabilities other than OPEB and	
Due in more than one year	128,432,968
Total other postemployment benefits (OPEB) liability	11,219,369
Aggregate net pension liabilities	52,097,260
Total liabilities	203,622,822

Morgan Hill Unified School District  
Statement of Net Position  
June 30, 2022

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	Governmental Activities
Deferred Inflows of Resources	
Deferred inflows of resources related to OPEB	\$ 16,812,108
Deferred inflows of resources related to pensions	39,670,883
Total deferred inflows of resources	56,482,991
Net Position	
Net investment in capital assets	186,434,839
Restricted for	
Debt service	1,095,339
Capital projects	15,553,488
Educational programs	10,373,165
Food service	1,983,709
Student activity	941,978
Unrestricted	(53,457,215)
Total net position	\$ 162,925,303

Morgan Hill Unified School District  
Statement of Activities  
Year Ended June 30, 2022

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	\$ 40,268,472	\$ 1,580,821	\$ 14,044,678	\$ (24,642,973)
Instruction-related activities				
Supervision of instruction	2,295,490	4,927	953,567	(1,336,996)
Instructional library, media, and technology	(2,740,212)	-	24,315	2,764,527
School site administration	9,260,972	43,522	2,556,297	(6,661,153)
Pupil services				
Home-to-school transportation	2,660,399	-	7,979	(2,652,420)
Food services	1,977,841	(348)	4,620,391	2,642,202
All other pupil services	7,719,406	19,170	2,373,843	(5,326,393)
Administration				
Data processing	1,173,283	-	-	(1,173,283)
All other administration	3,583,412	1,488	1,133,601	(2,448,323)
Plant services	11,575,812	33,964	48,382	(11,493,466)
Ancillary services	1,761,715	-	1,150,633	(611,082)
Community services	10,439	-	-	(10,439)
Interest on long-term liabilities	5,071,687	-	-	(5,071,687)
Other outgo	3,592,154	-	-	(3,592,154)
Total governmental activities	<u>\$ 86,054,117</u>	<u>\$ 1,683,544</u>	<u>\$ 26,913,686</u>	<u>\$ (57,456,887)</u>
General Revenues and Subventions				
Property taxes, levied for general purposes				61,828,284
Property taxes, levied for debt service				5,188,618
Taxes levied for other specific purposes				3,703,068
Federal and State aid not restricted to specific purposes				25,523,776
Interest and investment earnings				(1,318,762)
Interagency revenues				168,314
Miscellaneous				1,217,671
Subtotal, general revenues				<u>96,310,969</u>
Change in Net Position				38,854,082
Net Position - Beginning				<u>124,071,221</u>
Net Position - Ending				<u>\$ 162,925,303</u>

Morgan Hill Unified School District  
Balance Sheet – Governmental Funds  
June 30, 2022

	General Fund	Building Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Deposits and investments	\$ 54,917,350	\$ 25,117,407	\$ 13,458,908	\$ 8,561,378	\$ 102,055,043
Receivables	6,020,303	39,205	31,331	934,831	7,025,670
Due from other funds	208,915	-	-	13,904	222,819
Prepaid expenditures	53,408	-	-	-	53,408
<b>Total assets</b>	<b>\$ 61,199,976</b>	<b>\$ 25,156,612</b>	<b>\$ 13,490,239</b>	<b>\$ 9,510,113</b>	<b>\$ 109,356,940</b>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 3,871,943	\$ 575,262	\$ 7,916	\$ 435,530	\$ 4,890,651
Due to other funds	13,904	-	85,207	123,708	222,819
Unearned revenue	4,242,576	-	-	31,686	4,274,262
<b>Total liabilities</b>	<b>8,128,423</b>	<b>575,262</b>	<b>93,123</b>	<b>590,924</b>	<b>9,387,732</b>
<b>Fund Balances</b>					
Nonspendable	67,908	-	-	6,000	73,908
Restricted	10,140,675	24,581,350	13,397,116	8,221,144	56,340,285
Committed	-	-	-	692,045	692,045
Assigned	3,668,070	-	-	-	3,668,070
Unassigned	39,194,900	-	-	-	39,194,900
<b>Total fund balances</b>	<b>53,071,553</b>	<b>24,581,350</b>	<b>13,397,116</b>	<b>8,919,189</b>	<b>99,969,208</b>
<b>Total liabilities and fund balances</b>	<b>\$ 61,199,976</b>	<b>\$ 25,156,612</b>	<b>\$ 13,490,239</b>	<b>\$ 9,510,113</b>	<b>\$ 109,356,940</b>

Morgan Hill Unified School District  
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position  
June 30, 2022

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Total Fund Balance - Governmental Funds		\$ 99,969,208
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	\$ 400,293,711	
Accumulated depreciation is	<u>(109,361,257)</u>	
Net capital assets		290,932,454
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.		
		(1,816,256)
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)	4,555,232	
Net pension liability	<u>18,409,309</u>	
Total deferred outflows of resources		22,964,541
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	(16,812,108)	
Net pension obligation	<u>(39,670,883)</u>	
Total deferred inflows of resources		(56,482,991)
Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.		
		(52,097,260)
The District's OPEB liability is not due and payable in the current period, and is not reported as a liability in the funds.		
		(11,219,369)
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	(115,643,158)	
Certificates of participation, including unamortized discounts	(13,435,807)	
Compensated absences (vacations)	<u>(246,059)</u>	
Total long-term liabilities		<u>(129,325,024)</u>
Total net position - governmental activities		<u>\$ 162,925,303</u>

**Morgan Hill Unified School District**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds**  
**Year Ended June 30, 2022**

	General Fund	Building Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Local control funding formula	\$ 84,815,990	\$ -	\$ -	\$ -	\$ 84,815,990
Federal sources	6,359,792	702,984	-	4,806,652	11,869,428
Other State sources	13,140,806	3,056,601	-	1,140,131	17,337,538
Other local sources	5,699,260	249	2,543,714	6,697,010	14,940,233
<b>Total revenues</b>	<b>110,015,848</b>	<b>3,759,834</b>	<b>2,543,714</b>	<b>12,643,793</b>	<b>128,963,189</b>
<b>Expenditures</b>					
<b>Current</b>					
Instruction	59,742,589	-	-	467,772	60,210,361
Instruction-related activities					
Supervision of instruction	3,073,372	-	-	61,462	3,134,834
Instructional library, media, and technology	332,924	-	-	-	332,924
School site administration	9,904,634	-	-	333,324	10,237,958
Pupil services					
Home-to-school transportation	2,569,937	-	-	-	2,569,937
Food services	1,080	-	-	4,027,672	4,028,752
All other pupil services	7,852,813	-	-	-	7,852,813
Administration					
Data processing	1,601,421	-	-	-	1,601,421
All other administration	4,710,650	-	-	151,171	4,861,821
Plant services	9,539,078	2,189,289	14,340	7,140	11,749,847
Ancillary services	876,285	-	-	1,030,784	1,907,069
Community services	13,096	-	-	-	13,096
Other outgo	3,592,154	-	-	-	3,592,154
Capital outlay	1,336,699	3,244,302	1,988	435,500	5,018,489
Debt service					
Principal	-	-	-	445,000	445,000
Interest and other	-	958,855	-	4,370,807	5,329,662
<b>Total expenditures</b>	<b>105,146,732</b>	<b>6,392,446</b>	<b>16,328</b>	<b>11,330,632</b>	<b>122,886,138</b>
Excess (Deficiency) of Revenues Over Expenditures	4,869,116	(2,632,612)	2,527,386	1,313,161	6,077,051
<b>Other Financing Sources (Uses)</b>					
Transfers in	-	412,794	-	13,904	426,698
Transfers out	(341,491)	-	(85,207)	-	(426,698)
<b>Net Financing Sources (Uses)</b>	<b>(341,491)</b>	<b>412,794</b>	<b>(85,207)</b>	<b>13,904</b>	<b>-</b>
<b>Net Change in Fund Balances</b>	<b>4,527,625</b>	<b>(2,219,818)</b>	<b>2,442,179</b>	<b>1,327,065</b>	<b>6,077,051</b>
Fund Balance - Beginning	48,543,928	26,801,168	10,954,937	7,592,124	93,892,157
<b>Fund Balance - Ending</b>	<b>\$ 53,071,553</b>	<b>\$ 24,581,350</b>	<b>\$ 13,397,116</b>	<b>\$ 8,919,189</b>	<b>\$ 99,969,208</b>

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, 2022

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Total Net Change in Fund Balances - Governmental Funds \$ 6,077,051

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 and amortization expenses in the Statement of Activities.

This is the amount by which depreciation and amortization expenses exceeds capital outlays in the period.

Depreciation and amortization expenses	\$ (9,466,313)
Capital outlays	<u>5,018,489</u>

Net expense adjustment	(4,447,824)
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In the Statement of Activities, certain operating expenses, such as 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.

27,075

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.

7,302,904

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.

29,191,902

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, continued  
Year Ended June 30, 2022

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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	264,398
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	445,000
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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.

7,416

Change in net position of governmental activities

\$ 38,854,082

**Note 1 - Summary of Significant Accounting Policies**

**Financial Reporting Entity**

The Morgan Hill Unified School District (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 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 and amortization of leased asset. 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.

The District records impairments of capital assets when it becomes probable that the carrying value of the assets will not be fully recovered over their estimated useful life. Impairments are recorded to reduce the carrying value of the assets to their net realizable value based on facts and circumstances in existence at the time of the determination. No impairments were recorded during the year ended June 30, 2022.

**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, 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 asset 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 pension related items, and for OPEB related items.

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 asset 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, deferred inflows of resources related to leases, for pension related items, and for OPEB related items.

### **Pensions**

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

### **Debt Premiums and Discounts**

In the government-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net position. Debt premiums and discounts are amortized over the life of the bonds using the straight-line method which approximates the effective interest rate method.

### **Fund Balances - Governmental Funds**

As of June 30, 2022, fund balances of the governmental funds are classified as follows:

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

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

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

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

**Unassigned** - all other spendable amounts.

**Spending Order Policy**

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

**Net Position**

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

**Interfund Activity**

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

**Estimates**

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

**Property Tax**

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

**Implementation of GASB Statement No. 87**

As of July 1, 2021, the District adopted GASB Statement No. 87, *Leases*. The implementation of this standard establishes a single model for lease accounting based on the foundational principle that leases are financings of the right-to-use an underlying asset. The standard requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. This statement did not have an impact on the District's financial statements.

**Implementation of GASB Statement No. 89**

As of July 1, 2021, The District adopted GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The implementation of this Standard establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The effect of the implementation of this standard on the beginning net position is disclosed.

**Note 2 - Deposits and Investments**

**Summary of Deposits and Investments**

Deposits and investments as of June 30, 2022, are classified in the accompanying financial statements as follows:

Governmental funds	\$ 102,055,043
Total deposits and investments	\$ 102,055,043

Deposits and investments as of June 30, 2022, consist of the following:

Cash on hand and in banks	\$ 11,022,460
Cash in revolving	20,500
Investments	91,012,083
Total deposits and investments	\$ 102,055,043

**Policies and Practices**

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

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

### General Authorizations

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

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

### Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury Pool and money market accounts. 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, 2022.

**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, 2022, the District's bank balance of approximately \$11 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 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.

The District's \$80,931,603 investment in the Santa Clara County pool and its \$10,080,480 guaranteed investment with the fiscal agent at U.S. Bank are not subject to the fair value measurement requirements.

**Note 4 - Receivables**

Receivables at June 30, 2022, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Building Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total
Federal Government					
Categorical aid	\$ 4,014,725	\$ -	\$ -	\$ 596,967	\$ 4,611,692
State Government					
Categorical aid	701,075	-	-	58,927	760,002
Lottery	449,626	-	-	-	449,626
Local Government					
Interest	176,763	39,205	29,793	13,117	258,878
Other local sources	678,114	-	1,538	265,820	945,472
	<u>\$ 6,020,303</u>	<u>\$ 39,205</u>	<u>\$ 31,331</u>	<u>\$ 934,831</u>	<u>\$ 7,025,670</u>

**Note 5 - Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2022, was as follows:

	Balance July 1, 2021	Additions	Deductions	Balance June 30, 2022
<b>Governmental Activities</b>				
Capital assets not being depreciated				
Land	\$ 17,615,844	\$ -	\$ -	\$ 17,615,844
Construction in progress	15,190,808	4,635,873	(7,918,206)	11,908,475
<b>Total capital assets not being depreciated</b>	<b>32,806,652</b>	<b>4,635,873</b>	<b>(7,918,206)</b>	<b>29,524,319</b>
Capital assets being depreciated				
Buildings and improvements	357,816,726	8,210,821	-	366,027,547
Furniture and equipment	4,651,845	90,000	-	4,741,845
<b>Total capital assets being depreciated</b>	<b>362,468,571</b>	<b>8,300,822</b>	<b>-</b>	<b>370,769,393</b>
<b>Total capital assets</b>	<b>395,275,223</b>	<b>12,936,695</b>	<b>(7,918,206)</b>	<b>400,293,712</b>
Accumulated depreciation				
Buildings and improvements	(97,146,396)	(9,166,159)	-	(106,312,555)
Furniture and equipment	(2,748,549)	(300,154)	-	(3,048,703)
<b>Total accumulated depreciation</b>	<b>(99,894,945)</b>	<b>(9,466,313)</b>	<b>-</b>	<b>(109,361,258)</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 295,380,278</b>	<b>\$ 3,470,382</b>	<b>\$ (7,918,206)</b>	<b>\$ 290,932,454</b>

Depreciation and amortization expenses were charged as a direct expense to governmental functions as follows:

Governmental Activities	
Instruction	\$ 5,359,521
Supervision of instruction	279,042
Instructional library, media, and technology	29,635
School site administration	911,315
Home-to-school transportation	228,759
Food services	358,613
All other pupil services	699,005
Ancillary services	170,029
Community services	1,166
Data processing	142,548
All other administration	432,767
Plant services	<u>853,913</u>
 Total depreciation expenses governmental activities	 <u><u>\$ 9,466,313</u></u>

**Note 6 - Interfund Transactions**

Interfund Receivables/Payables (Due To/Due From)

Due To	Due From		Total
	General Fund	Non-Major Governmental Funds	
General Fund	\$ -	\$ 13,904	\$ 13,904
Capital Facilities Fund	85,207	-	85,207
Non-Major Governmental Funds	<u>123,708</u>	<u>-</u>	<u>123,708</u>
 Total	 <u><u>\$ 208,915</u></u>	 <u><u>\$ 13,904</u></u>	 <u><u>\$ 222,819</u></u>

All balances 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, 2022, consisted of the following:

Transfer To	Transfer From		Total
	Building Fund	Non-Major Governmental Funds	
General Fund	\$ 327,587	\$ 13,904	\$ 341,491
Capital Facilities Fund	85,207	-	85,207
Total	<u>\$ 412,794</u>	<u>\$ 13,904</u>	<u>\$ 426,698</u>

The Capital Facilities Fund transferred to the Building Fund for support.	\$ 85,207
General Fund transferred to Adult Education Fund to serve concurrently enrolled students.	13,904
General Fund transferred to Building Fund to cover the cost of the solar programs.	<u>327,587</u>
Total	<u>\$ 426,698</u>

**Note 7 - Accounts Payable**

Accounts payable at June 30, 2022, consisted of the following:

	General Fund	Building Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total
Vendor payables	\$ 2,381,977	\$ 575,262	\$ 7,916	\$ 422,600	\$ 3,387,755
LCFF apportionment	1,121,333	-	-	-	1,121,333
Salaries and benefits	368,633	-	-	12,930	381,563
<b>Total</b>	<b>\$ 3,871,943</b>	<b>\$ 575,262</b>	<b>\$ 7,916</b>	<b>\$ 435,530</b>	<b>\$ 4,890,651</b>

**Note 8 - Unearned Revenue**

Unearned revenue at June 30, 2022, consists of the following:

	General Fund	Non-Major Governmental Funds	Total
Federal financial assistance	\$ 911,145	\$ -	\$ 911,145
State categorical aid	3,013,816	-	3,013,816
Other local	317,615	31,686	349,301
<b>Total</b>	<b>\$ 4,242,576</b>	<b>\$ 31,686</b>	<b>\$ 4,274,262</b>

**Note 9 - 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, 2021	Additions	Deductions	Balance June 30, 2022	Due in One Year
<b>Long-Term Liabilities</b>					
General obligation bonds	\$ 109,735,000	\$ -	\$ (445,000)	\$ 109,290,000	\$ 540,000
Certificates of participation	13,505,000	-	-	13,505,000	-
Unamortized debt premiums	6,617,556	-	(264,398)	6,353,158	264,398
Unamortized debt discounts	(83,033)	-	13,840	(69,193)	13,840
Compensated absences	273,134	65,965	(93,040)	246,059	73,818
<b>Total</b>	<b>\$ 130,047,657</b>	<b>\$ 65,965</b>	<b>\$ (788,598)</b>	<b>\$ 129,325,024</b>	<b>\$ 892,056</b>

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 Outstanding July 1, 2021	Redeemed	Bonds Outstanding June 30, 2022
2012	2042	2.00%-3.25%	\$ 55,000,000	\$ 45,255,000	\$ (445,000)	\$ 44,810,000
2017	2049	2.69%-5.00%	80,000,000	64,480,000	-	64,480,000
				<u>\$ 109,735,000</u>	<u>\$ (445,000)</u>	109,290,000
					Unamortized premium	<u>6,353,158</u>
					Total	<u>\$ 115,643,158</u>

**Debt Service Requirements to Maturity**

The bonds mature through 2049 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2024	\$ 540,000	\$ 4,348,213	\$ 4,888,213
2025	645,000	4,324,513	4,969,513
2026	750,000	4,292,863	5,042,863
2027	875,000	4,252,238	5,127,238
2028	1,010,000	4,205,113	5,215,113
2028-2032	7,940,000	20,184,977	28,124,977
2033-2037	16,970,000	17,979,522	34,949,522
2038-2042	27,670,000	13,659,045	41,329,045
2043-2047	42,295,000	6,614,900	48,909,900
2048-2049	10,595,000	211,900	10,806,900
Total	<u>\$ 109,290,000</u>	<u>\$ 80,073,284</u>	<u>\$ 189,363,284</u>

**Certificates of Participation**

In May 2011, the 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, 2022, the principal balance outstanding was \$13,505,000. The certificates mature through 2027 as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	<u>\$ 13,505,000</u>	<u>\$ 4,794,275</u>	<u>\$ 18,299,275</u>

**Compensated Absences**

Compensated absences (unpaid employee vacation) for the District at June 30, 2022 amounted to \$246,059.

**Note 10 - Total Other Postemployment Benefit (OPEB) Liability**

For the fiscal year ended June 30, 2022, 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	\$ 11,219,369	\$ 4,555,232	\$ 16,812,108	\$ 29,191,902

**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, 2021, the valuation date, the Plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits payments	297
Active employees	308
Total	605

**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. Certificated and classified employees who retire on or after age 55 with at least 10 years of service are entitled to benefits for \$9,000 per year until the retiree turns 65.

**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 2021-2022, the District contributed \$952,392 to the Plan, all of which was used for current premiums.

**Total OPEB Liability of the District**

The District's total OPEB liability of \$11,219,369 was measured as of June 30, 2021, 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, 2021 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	2.18 percent, net of OPEB plan investment expense, including inflation
Healthcare cost trend rates	4.00 percent for 2021 and after

The discount rate of 2.18% (2.79% in 2021) was based on the Bond Buyer 20-bond General Obligation Index. Mortality rates were based on the 2017 CalPERS valuation (for classified employees) and from the 2016 valuation of CalSTRS (for certificated employees).

**Changes in the Total OPEB Liability**

	Total OPEB Liability
Balance, July 1	<u>\$ 49,227,558</u>
Service cost	1,740,261
Interest	1,289,273
Changes of benefit terms	(28,185,103)
Differences between expected and actual experience	(11,984,701)
Changes of assumptions or other inputs	649,414
Benefit payments	<u>(1,517,333)</u>
Net change in total OPEB liability	<u>(38,008,189)</u>
Balance, June 30,	<u><u>\$ 11,219,369</u></u>

The District renegotiated its benefit terms in which benefits now are provided until age 65 when previously the District offered Public Employees' Medical & Hospital Care Ac (PEMHCA) benefits through life, after attaining the age of 65. This resulted in a change in benefits terms and significantly reduced the District's OPEB liability.

**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:

<u>Discount Rate</u>	<u>Total OPEB Liability</u>
1% decrease (1.18%)	\$ 12,422,576
Current discount rate (2.18%)	11,219,369
1% increase (3.18%)	10,184,301

**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:

<u>Healthcare Cost Trend Rate</u>	<u>Total OPEB Liability</u>
1% decrease (3%)	\$ 10,361,803
Current healthcare cost trend rate (4%)	11,219,369
1% increase (5%)	12,238,641

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

For the year ended June 30, 2022, the District recognized OPEB expense of \$29,191,902. At June 30, 2022, the District reported deferred outflows of resources and deferred inflow of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
OPEB contributions subsequent to measurement date	\$ 952,392	\$ -
Differences between expected and actual experience	-	14,612,625
Changes of assumptions	3,602,840	2,199,483
<b>Total</b>	<b>\$ 4,555,232</b>	<b>\$ 16,812,108</b>

The deferred outflows of resources for OPEB contributions subsequent to measurement date will be recognized as reduction of the net/total OPEB liability in the subsequent fiscal year.

The deferred inflows of resources related to the changes of assumptions will be amortized over the average of the expected remaining service lives of all employees. As of June 30, 2021 valuation date, the average for District employees is 8.8 years. The deferred inflows will be recognized in OPEB expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2024	\$ (2,751,332)
2025	(2,751,332)
2026	(2,751,332)
2027	(2,751,332)
2028	(1,304,120)
Thereafter	(899,820)
Total	\$ (13,209,268)

**Note 11 - Fund Balances**

Fund balances are composed of the following elements:

	General Fund	Building Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total
<b>Nonspendable</b>					
Revolving cash	\$ 14,500	\$ -	\$ -	\$ 5,000	\$ 19,500
Prepaid expenditures	53,408	-	-	1,000	54,408
<b>Total nonspendable</b>	<b>67,908</b>	<b>-</b>	<b>-</b>	<b>6,000</b>	<b>73,908</b>
<b>Restricted</b>					
Legally restricted programs	10,140,675	-	-	-	10,140,675
Student activity	-	-	-	941,978	941,978
Adult educational program	-	-	-	227,490	227,490
Food program	-	-	-	1,983,709	1,983,709
Capital projects	-	24,581,350	13,397,116	2,156,372	40,134,838
Debt services	-	-	-	2,911,595	2,911,595
<b>Total restricted</b>	<b>10,140,675</b>	<b>24,581,350</b>	<b>13,397,116</b>	<b>8,221,144</b>	<b>56,340,285</b>
<b>Committed</b>					
Adult education program	-	-	-	323,071	323,071
Deferred maintenance program	-	-	-	368,974	368,974
<b>Total committed</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>692,045</b>	<b>692,045</b>
<b>Assigned</b>					
Enrichment programs	3,067,002	-	-	-	3,067,002
Retiree benefits	601,068	-	-	-	601,068
<b>Total assigned</b>	<b>3,668,070</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,668,070</b>
<b>Unassigned</b>					
Reserve for economic uncertainties	3,261,005	-	-	-	3,261,005
Remaining unassigned	35,933,895	-	-	-	35,933,895
<b>Total unassigned</b>	<b>39,194,900</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>39,194,900</b>
<b>Total</b>	<b>\$53,071,553</b>	<b>\$24,581,350</b>	<b>\$13,397,116</b>	<b>\$8,919,189</b>	<b>\$99,969,208</b>

**Note 12 - 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, 2022, 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 2022, 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 ensures 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 13 - 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, 2022, 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:

<u>Pension Plan</u>	<u>Net Pension Liability</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Pension Expense</u>
CalSTRS	\$ 32,673,574	\$ 14,367,184	\$ 30,352,608	\$ 2,079,965
CalPERS	19,423,686	4,042,125	9,318,275	1,395,131
Total	<u>\$ 52,097,260</u>	<u>\$ 18,409,309</u>	<u>\$ 39,670,883</u>	<u>\$ 3,475,096</u>

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, 2020, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

**Benefits Provided**

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

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

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

The STRP provisions and benefits in effect at June 30, 2022, are summarized as follows:

	<u>STRP Defined Benefit Program</u>	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	2% at 60	2% at 62
Benefit formula	5 years of service	5 years of service
Benefit vesting schedule	Monthly for life	Monthly for life
Benefit payments	60	62
Retirement age	2.0% - 2.4%	2.0% - 2.4%
Monthly benefits as a percentage of eligible compensation	10.25%	10.205%
Required employee contribution rate	16.92%	16.92%
Required employer contribution rate	10.828%	10.828%
Required state contribution rate		

### Contributions

Required member, District and State of California contributions rates are set by the California Legislature and the Governor and detailed in the Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2022, are presented above and the District's total contributions were \$7,315,722.

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

At June 30, 2022, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related state support and the total portion of the net pension liability that was associated with the District were as follows:

Total net pension liability, including State share

Proportionate share of net pension liability	\$ 32,673,574
State's proportionate share of the net pension liability	<u>16,440,075</u>
Total	<u><u>\$ 49,113,649</u></u>

The net pension liability was measured as of June 30, 2021. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportionate share for the measurement period June 30, 2021 and June 30, 2020, respectively was 0.0718 percent and 0.0691 percent, resulting in a net increase in the proportionate share of 0.0027 percent.

For the year ended June 30, 2022, the District recognized its proportionate share pension expense of \$2,079,965. In addition, the District also recorded pension expense and revenue of \$562,477 for support provided by the State. At June 30, 2022, 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	\$ 7,315,722	\$ -
Change in proportion and differences between contributions made and District's proportionate share of contributions	2,340,115	1,029,819
Differences between projected and actual earnings on pension plan investments	-	25,845,639
Differences between expected and actual experience in the measurement of the total pension liability	81,849	3,477,150
Changes of assumptions	<u>4,629,498</u>	<u>-</u>
Total	<u><u>\$ 14,367,184</u></u>	<u><u>\$ 30,352,608</u></u>

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>
2024	\$ (6,563,242)
2025	(6,003,223)
2026	(6,152,203)
2027	<u>(7,126,971)</u>
Total	<u>\$ (25,845,639)</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>
2024	\$ 1,493,720
2025	1,754,937
2026	(316,835)
2027	(63,856)
2028	(170,538)
Thereafter	<u>(152,935)</u>
Total	<u>\$ 2,544,493</u>

**Actuarial Methods and Assumptions**

Total pension liability for STRP was determined by applying updated procedures to the financial reporting actuarial valuation as of June 30, 2020, and rolling forward the total pension liability to June 30, 2021. The financial reporting actuarial valuation as of June 30, 2020, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2020
Measurement date	June 30, 2021
Experience study	July 1, 2015 through June 30, 2018
Actuarial cost method	Entry age normal
Discount rate	7.10%
Investment rate of return	7.10%
Consumer price inflation	2.75%
Wage growth	3.50%

CalSTRS uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among its members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2019) table, issued by the Society of Actuaries.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant as an input to the process. The actuarial investment rate of return assumption was adopted by the board in January 2020 in conjunction with the most recent experience study. For each current and future valuation, CalSTRS' independent consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometrically-linked real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2021, are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Public equity	42%	4.8%
Fixed income	15%	1.3%
Real estate	13%	3.6%
Private equity	12%	6.3%
Risk mitigating strategies	10%	1.8%
Inflation sensitive	6%	-3.3%
Cash/liquidity	2%	-0.4%

**Discount Rate**

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

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

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (6.10%)	\$ 66,511,702
Current discount rate (7.10%)	32,673,574
1% increase (8.10%)	4,588,574

**California Public Employees Retirement System (CalPERS)**

**Plan Description**

Qualified employees are eligible to participate in the School Employer Pool (SEP) and the Safety Risk Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2020 annual actuarial valuation reports, Schools Pool Actuarial Valuation, and the Risk Pool Actuarial Valuation Report, Safety. These reports and CalPERS audited financial information are publicly available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/forms-publications>.

### Benefits Provided

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

The CalPERS provisions and benefits in effect at June 30, 2022, are summarized as follows:

	School Employer Pool (CalPERS)	
	On or before December 31, 2012	On or after January 1, 2013
Hire date		
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.00%	7.00%
Required employer contribution rate	22.91%	22.91%

### Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2022, are presented above and the total District contributions were \$3,462,278.

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

As of June 30, 2022, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$19,423,686. The net pension liability was measured as of June 30, 2021. 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, 2021 and June 30, 2020, respectively was 0.0955 percent and 0.0989 percent, resulting in a net decrease in the proportionate share of 0.0034 percent.

For the year ended June 30, 2022, the District recognized pension expense of \$1,395,131. At June 30, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 3,462,278	\$ -
Change in proportion and differences between contributions made and District's proportionate share of contributions	-	1,818,252
Differences between projected and actual earnings on pension plan investments	-	7,454,233
Differences between expected and actual experience in the measurement of the total pension liability	579,847	45,790
Changes of assumptions	-	-
	<u>                    </u>	<u>                    </u>
Total	<u>\$ 4,042,125</u>	<u>\$ 9,318,275</u>

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:

<u>Year Ended June 30,</u>	<u>Deferred Outflows/(Inflows) of Resources</u>
2024	\$ (1,869,515)
2025	(1,719,187)
2026	(1,792,365)
2027	(2,073,166)
	<u>                    </u>
Total	<u>\$ (7,454,233)</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 4.1 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2024	\$ (361,690)
2025	(610,880)
2026	(286,849)
2027	(24,776)
Total	<u>\$ (1,284,195)</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, 2020, and rolling forward the total pension liability to June 30, 2021. The financial reporting actuarial valuation as of June 30, 2020, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2020
Measurement date	June 30, 2021
Experience study	July 1, 1997 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.15%
Investment rate of return	7.15%
Consumer price inflation	2.50%
Wage growth	Varies by entry age and service

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

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

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

#### Discount Rate

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

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

Discount Rate	Net Pension Liability
1% decrease (6.15%)	\$ 32,751,062
Current discount rate (7.15%)	19,423,686
1% increase (8.15%)	8,359,104

### **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 \$4,617,467 (10.828 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 14 - 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, 2022.

**Construction Commitments**

As of June 30, 2022, the District had the following commitments with respect to unfinished capital projects:

<u>Capital Project</u>	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
Britton Student Union/Admin	\$ 1,057,307	May 2024
JAMM MultiUse Bldg and Music Classroom	3,858	March 2022
Nordstrom Admin	3,310,539	February 2023
Live Oak Fencing	1,840	April 2022
Live Oak Gym HVAC	83,887	March 2023
Deferred Maint Projects	43,198	August 2025
Telephone System Upgrade	384,515	March 2023
HVAC Replacement	155,282	October 2022
Charter Roofing	455,950	July 2022
	<u>455,950</u>	
Total	<u>\$ 5,496,376</u>	

**Litigation**

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

**Note 15 - Participation in Public Entity Risk Pools**

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

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

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

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Required Supplementary Information  
June 30, 2022

**Morgan Hill Unified School District**

Morgan Hill Unified School District  
 Budgetary Comparison Schedule – General Fund  
 Year Ended June 30, 2022

	Budgeted Amounts		Actual	Variances - Positive (Negative)
	Original	Final		Final to Actual
<b>Revenues</b>				
Local control funding formula	\$ 84,436,085	\$ 84,549,619	\$ 84,815,990	\$ 266,371
Federal sources	3,846,355	7,421,715	6,359,792	(1,061,923)
Other State sources	7,262,716	12,240,587	13,140,806	900,219
Other local sources	4,984,593	7,811,888	5,792,604	(2,019,284)
Total revenues	<u>100,529,749</u>	<u>112,023,809</u>	<u>110,109,192</u>	<u>(1,914,617)</u>
<b>Expenditures</b>				
Current				
Certificated salaries	45,157,868	46,205,843	44,654,250	1,551,593
Classified salaries	15,772,505	16,388,785	15,290,908	1,097,877
Employee benefits	25,729,055	25,587,689	24,362,389	1,225,300
Books and supplies	3,071,475	4,460,827	3,458,456	1,002,371
Services and operating expenditures	11,615,248	14,382,453	13,453,927	928,526
Other outgo	4,315,102	4,262,487	3,440,979	821,508
Capital outlay	2,002	1,458,213	485,823	972,390
Total expenditures	<u>105,663,255</u>	<u>112,746,297</u>	<u>105,146,732</u>	<u>7,599,565</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(5,133,506)</u>	<u>(722,488)</u>	<u>4,962,460</u>	<u>5,684,948</u>
<b>Other Financing Sources (Uses)</b>				
Transfers in	2,287,650	3,171,400	-	(3,171,400)
Transfers out	(2,910,759)	(3,559,794)	(341,491)	3,218,303
Net financing sources (uses)	<u>(623,109)</u>	<u>(388,394)</u>	<u>(341,491)</u>	<u>46,903</u>
Net Change in Fund Balances	(5,756,615)	(1,110,882)	4,620,969	5,731,851
Fund Balance - Beginning	44,074,266	44,074,266	44,074,266	-
Fund Balance - Ending	<u>\$ 38,317,651</u>	<u>\$ 42,963,384</u>	48,695,235	<u>\$ 5,731,851</u>
Special Reserve Fund for Other Than Capital Outlay Projects			3,775,250	
Special Reserve Fund for Postemployment Benefits			<u>601,068</u>	
Fund Balance - Ending			<u>\$ 53,071,553</u>	

Morgan Hill Unified School District  
Schedule of Changes in the District's Total OPEB Liability and Related Ratios  
Year Ended June 30, 2022

	2022	2021	2020	2019	2018
Total OPEB Liability					
Service cost	\$ 1,740,261	\$ 1,626,960	\$ 1,952,843	\$ 1,818,977	\$ 1,984,946
Interest	1,289,273	1,277,155	1,497,955	1,469,226	1,320,152
Changes of benefit terms	(28,185,103)	-	(1,585,457)	-	-
Difference between expected and actual experience	(11,984,701)	-	(7,418,080)	-	-
Changes of assumptions	649,414	1,114,453	2,139,162	1,281,703	(3,591,558)
Benefit payments	(1,517,333)	(1,134,358)	(1,020,040)	(1,466,115)	(1,508,907)
Net change in total OPEB liability	(38,008,189)	2,884,210	(4,433,617)	3,103,791	(1,795,367)
Total OPEB Liability - Beginning	49,227,558	46,343,348	50,776,965	47,673,174	49,468,541
Total OPEB Liability - Ending	<u>\$ 11,219,369</u>	<u>\$ 49,227,558</u>	<u>\$ 46,343,348</u>	<u>\$ 50,776,965</u>	<u>\$ 47,673,174</u>
Covered Payroll	<u>N/A<sup>1</sup></u>	<u>N/A<sup>1</sup></u>	<u>N/A<sup>1</sup></u>	<u>N/A<sup>1</sup></u>	<u>N/A<sup>1</sup></u>
Total OPEB Liability as a Percentage of Covered Payroll	<u>N/A<sup>1</sup></u>	<u>N/A<sup>1</sup></u>	<u>N/A<sup>1</sup></u>	<u>N/A<sup>1</sup></u>	<u>N/A<sup>1</sup></u>
Measurement Date	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017

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

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

Morgan Hill Unified School District  
Schedule of the District's Proportionate Share of the Net Pension Liability  
Year Ended June 30, 2022

	2022	2021
<b>CalSTRS</b>		
Proportion of the net pension liability (asset)	0.0718%	0.0691%
Proportionate share of the net pension liability (asset)	\$ 32,673,574	\$ 66,921,307
State's proportionate share of the net pension liability (asset)	16,440,075	34,497,942
Total	\$ 49,113,649	\$ 101,419,249
Covered payroll	\$ 39,065,152	\$ 37,674,591
Proportionate share of the net pension liability as a percentage of its covered payroll	83.64%	177.63%
Plan fiduciary net position as a percentage of the total pension liability	87%	72%
Measurement Date	June 30, 2021	June 30, 2020
<b>CalPERS</b>		
Proportion of the net pension liability (asset)	0.0955%	0.0989%
Proportionate share of the net pension liability (asset)	\$ 19,423,686	\$ 30,340,605
Covered payroll	\$ 13,704,507	\$ 14,243,629
Proportionate share of the net pension liability (asset) as a percentage of its covered payroll	141.73%	213.01%
Plan fiduciary net position as a percentage of the total pension liability	81%	70%
Measurement Date	June 30, 2021	June 30, 2020
<i>Note</i> : In the future, as data becomes available, ten years of information will be presented.		

See Notes to Required Supplementary Information

Morgan Hill Unified School District  
Schedule of the District's Proportionate Share of the Net Pension Liability  
Year Ended June 30, 2022

2020	2019	2018	2017	2016	2015
0.0689%	0.0663%	0.0685%	0.0686%	0.0700%	0.0670%
\$ 62,212,546	\$ 60,948,651	\$ 63,317,270	\$ 55,524,384	\$ 47,100,020	\$ 39,151,313
33,941,097	34,895,953	37,457,962	31,609,042	24,910,718	23,641,253
<u>\$ 96,153,643</u>	<u>\$ 95,844,604</u>	<u>\$ 100,775,232</u>	<u>\$ 87,133,426</u>	<u>\$ 72,010,738</u>	<u>\$ 62,792,566</u>
<u>\$ 36,789,958</u>	<u>\$ 36,382,579</u>	<u>\$ 36,639,182</u>	<u>\$ 34,366,785</u>	<u>\$ 29,917,624</u>	<u>\$ -</u>
169.10%	167.52%	172.81%	161.56%	157.43%	130.07%
73%	71%	69%	70%	74%	77%
June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
0.1033%	0.1042%	0.1014%	0.0974%	0.0960%	0.0935%
\$ 30,101,834	\$ 27,780,195	\$ 24,211,698	\$ 19,240,492	\$ 14,155,717	\$ 10,616,563
<u>\$ 14,383,598</u>	<u>\$ 13,744,412</u>	<u>\$ 12,933,837</u>	<u>\$ 11,687,917</u>	<u>\$ 10,633,088</u>	<u>\$ 9,812,471</u>
209.28%	202.12%	187.20%	164.62%	133.13%	108.19%
70%	71%	72%	74%	79%	83%
June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014

Morgan Hill Unified School District  
Schedule of the District's Contributions for Pension  
Year Ended June 30, 2022

	2022	2021	2020
<b>CalSTRS</b>			
Contractually required contribution	\$ 7,315,722	\$ 6,309,022	\$ 6,442,355
Less contributions in relation to the contractually required contribution	<u>7,315,722</u>	<u>6,309,022</u>	<u>6,442,355</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	<u>\$ 43,237,128</u>	<u>\$ 39,065,152</u>	<u>\$ 37,674,591</u>
Contributions as a percentage of covered payroll	<u>16.92%</u>	<u>16.15%</u>	<u>17.10%</u>
<b>CalPERS</b>			
Contractually required contribution	\$ 3,462,278	\$ 2,836,833	\$ 2,808,986
Less contributions in relation to the contractually required contribution	<u>3,462,278</u>	<u>2,836,833</u>	<u>2,808,986</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	<u>\$ 15,112,519</u>	<u>\$ 13,704,507</u>	<u>\$ 14,243,629</u>
Contributions as a percentage of covered payroll	<u>22.910%</u>	<u>20.70%</u>	<u>19.72%</u>

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

See Notes to Required Supplementary Information

Morgan Hill Unified School District  
Schedule of the District's Contributions for Pension  
Year Ended June 30, 2022

2019	2018	2017	2016	2015
\$ 5,989,025	\$ 5,245,292	\$ 4,599,667	\$ 3,688,822	\$ 2,909,037
<u>5,989,025</u>	<u>5,245,292</u>	<u>4,599,667</u>	<u>3,688,822</u>	<u>2,909,037</u>
<u>\$ -</u>				
<u>\$ 36,789,958</u>	<u>\$ 36,382,579</u>	<u>\$ 36,639,182</u>	<u>\$ 34,366,785</u>	<u>\$ 29,917,624</u>
<u>16.28%</u>	<u>14.42%</u>	<u>12.55%</u>	<u>10.73%</u>	<u>9.72%</u>
\$ 2,582,166	\$ 2,135,702	\$ 1,795,108	\$ 1,384,676	\$ 1,216,638
<u>2,582,166</u>	<u>2,135,702</u>	<u>1,795,108</u>	<u>1,384,676</u>	<u>1,216,638</u>
<u>\$ -</u>				
<u>\$ 14,383,598</u>	<u>\$ 13,744,412</u>	<u>\$ 12,933,837</u>	<u>\$ 11,687,917</u>	<u>\$ 10,633,088</u>
<u>17.95%</u>	<u>15.54%</u>	<u>13.88%</u>	<u>11.85%</u>	<u>11.44%</u>

See Notes to Required Supplementary Information

## **Note 1 - Purpose of Schedules**

### **Budgetary Comparison Schedule**

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

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

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

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

- *Change in Benefit Terms* – The District no longer offers PEMHCA lifetime benefits.
- *Change of Assumptions* – Discount rate changed to 2.18% at June 30, 2022 from 2.79% at June 30, 2021.

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

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

- *Changes in Benefit Terms* – There were no changes in benefit terms since the previous valuations for both CalSTRS and CalPERS.
- *Changes of Assumptions* – There were no changes in economic assumptions for either the CalSTRS or CalPERS plans from the previous valuations.

### **Schedule of the District's Contributions for Pension**

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



Supplementary Information  
June 30, 2022

**Morgan Hill Unified School District**

Morgan Hill Unified School District  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2022

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing/Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amounts Passed Through to Subrecipients
U.S. Department of Education				
Passed Through Santa Clara County Office of Education				
Special Education Cluster				
Special Education Grants to States	84.027	13379	\$ 1,523,104	\$ -
Special Education Grants to States	84.027	10115	24,883	-
Special Education Grants to States	84.027	15197	102,471	-
Special Education Preschool Grants	84.173	13430	33,528	-
Special Education Preschool Grants	84.173	13007	8,426	-
Special Education Preschool Grants	84.173	13431	260	-
Total Special Education Cluster			<u>1,692,672</u>	<u>-</u>
Passed Through California Department of Education (CDE)				
Adult Education - Basic Grants to States	84.002	14508	21,645	-
Adult Education - Basic Grants to States	84.002	13978	70,466	-
Total		14109	<u>92,111</u>	<u>-</u>
Title I Grants to Local Educational Agencies	84.010	14329	561,970	-
Title I Grants to Local Educational Agencies	84.010	15438	138,845	-
Total			<u>700,815</u>	<u>-</u>
Migrant Education State Grant Program	84.011	14838	230,054	-
Migrant Education State Grant Program	84.011	10005	30,644	-
Total		14768	<u>260,698</u>	<u>-</u>
English Language Acquisition State Grants	84.365	14346	247,335	-
English Language Acquisition State Grants	84.365	15146	13,001	-
Total			<u>260,336</u>	<u>-</u>
Career and Technical Education - Basic Grants to States- Rehabilitation	84.048	14891	203,183	-
Career and Technical Education - Basic Grants to States	84.048	14894	45,696	-
Total			<u>248,879</u>	<u>-</u>
COVID-19 - Elementary and Secondary School Emergency Relief - ESSER I	84.425D	15536	170,824	-
COVID-19 - Elementary and Secondary School Emergency Relief - ESSER II	84.425D	15547	1,290,648	-
COVID-19 - Elementary and Secondary School Emergency Relief - ESSER II	84.425D	15618	875,933	-
COVID-19 - Governor's Emergency Education Relief Fund - GEER II	84.425C	15619	182,819	-
COVID-19 - Elementary and Secondary School Emergency Relief - ESSER III	84.425U	15620	494,814	-
Total			<u>3,015,038</u>	<u>-</u>
Supporting Effective Instruction State Grants	84.367	14341	139,851	-
Student Support and Academic Enrichment Program	84.424	15396	41,502	-
Total U.S. Department of Education			<u>6,451,902</u>	<u>-</u>
U.S. Department of Health and Human Services Human Services				
Passed Through California Department of Education				
Child Care and Development Fund Cluster				
COVID-19 - Child Care and Development Block Grant	93.575	15555	\$ 7,200	\$ -
Total U.S. Department of Health and Human Services Human Services			<u>7,200</u>	<u>-</u>
U.S. Department of Agriculture				
Passed Through California Department of Education				
Child Nutrition Discretionary Grants Limited Availability				
Child Nutrition Cluster				
National School Lunch Program	10.555	13391	2,892,869	-
School Breakfast Program	10.553	13526	1,209,089	-
National School Lunch Program - Commodity	10.555	15637	342,580	-
National School Lunch Program - Supply Chain Assistance	10.555	13391	206,314	-
Total Child Nutrition Cluster			<u>4,650,852</u>	<u>-</u>
Total U.S. Department of Agriculture			<u>4,707,341</u>	<u>-</u>
Total Federal Financial Assistance			<u>\$ 11,166,443</u>	<u>\$ -</u>

**Organization**

The 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
Ivan Rosales Montes	Vice President	2024
Wendy Sullivan	Member	2022
Mary Patterson	Member	2024
Carol Gittens	Member	2022
Adam Escoto	Member	2024
Heather Orosco	Board Clerk	2022

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 Average Daily Attendance  
Year Ended June 30, 2022

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	2,031.30	2,031.56
Fourth through sixth	1,584.56	1,584.84
Seventh and eighth	1,112.74	1,113.21
Ninth through twelfth	2,589.38	2,579.67
Total Regular ADA	<u>7,317.98</u>	<u>7,309.28</u>
Extended Year Special Education		
Transitional kindergarten through third	2.00	2.00
Fourth through sixth	1.26	1.26
Seventh and eighth	0.95	0.95
Total Extended Year Special Education	<u>4.21</u>	<u>4.21</u>
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.67	0.63
Fourth through sixth	0.56	0.61
Seventh and eighth	2.75	2.56
Ninth through twelfth	10.78	10.11
Total Special Education, Nonpublic, Nonsectarian Schools	<u>14.76</u>	<u>13.91</u>
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Seventh and eighth	0.36	0.36
Ninth through twelfth	1.37	1.37
Total Extended Year Special Education, Nonpublic, Nonsectarian Schools	<u>1.73</u>	<u>1.73</u>
Total ADA	<u><u>7,338.68</u></u>	<u><u>7,329.13</u></u>

Morgan Hill Unified School District

Schedule of Instructional Time

Year Ended June 30, 2022

Grade Level	1986-1987 Minutes Requirement	2021-2022 Actual Minuts	Number of Actual Days		Status
			Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	53,490	180	N/A	Complied
Grades 1 - 3					
Grade 1	50,400	50,925	180	N/A	Complied
Grade 2	50,400	50,925	180	N/A	Complied
Grade 3	50,400	50,925	180	N/A	Complied
Grades 4 - 6					
Grade 4	54,000	54,276	180	N/A	Complied
Grade 5	54,000	54,276	180	N/A	Complied
Grade 6	54,000	56,010	180	N/A	Complied
Grades 7 - 8					
Grade 7	54,000	56,010	180	N/A	Complied
Grade 8	54,000	56,010	180	N/A	Complied
Grades 9 - 12					
Grade 9	64,800	64,804	180	N/A	Complied
Grade 10	64,800	64,804	180	N/A	Complied
Grade 11	64,800	64,804	180	N/A	Complied
Grade 12	64,800	64,804	180	N/A	Complied

Morgan Hill Unified School District  
 Reconciliation of Annual Financial and Budget Report with Audited Financial Statements  
 Year Ended June 30, 2022

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	General Fund	Special Reserve Fund for Other Than Capital Outlay Projects	Special Reserve Fund for Postemployment Benefits
Fund Balance			
Balance, June 30, 2022, Unaudited Actuals	\$ 48,695,235	\$ 3,775,250	\$ 601,068
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	4,376,318	(3,775,250)	(601,068)
Balance, June 30, 2022, Audited Financial Statements	\$ 53,071,553	\$ -	\$ -

Morgan Hill Unified School District  
Schedule of Financial Trends and Analysis  
Year Ended June 30, 2022

	(Budget) 2023 <sup>1</sup>	2022	20211	20201
General Fund				
Revenues	\$ 116,906,157	\$ 110,015,848	\$ 106,527,129	\$ 99,009,440
Other sources	2,363,031	-	45,239	40,286
Total Revenues and Other Sources	<u>119,269,188</u>	<u>110,015,848</u>	<u>106,572,368</u>	<u>99,049,726</u>
Expenditures	119,985,070	105,146,732	95,945,035	94,314,943
Other uses and transfers out	2,756,825	341,491	422,033	606,795
Total Expenditures and Other Uses	<u>122,741,895</u>	<u>105,488,223</u>	<u>96,367,068</u>	<u>94,921,738</u>
Increase/(Decrease) in Fund Balance	<u>(3,472,707)</u>	<u>4,527,625</u>	<u>10,205,300</u>	<u>4,127,988</u>
Ending Fund Balance	<u>\$ 49,598,846</u>	<u>\$ 53,071,553</u>	<u>\$ 48,543,928</u>	<u>\$ 38,338,628</u>
Available Reserves <sup>2</sup>	<u>\$ 29,435,180</u>	<u>\$ 39,194,900</u>	<u>\$ 32,761,906</u>	<u>\$28,376,480</u>
Available Reserves as a Percentage of Total Outgo	<u>23.98%</u>	<u>37.16%</u>	<u>34.00%</u>	<u>29.89%</u>
Long-Term Liabilities <sup>3</sup>	<u>\$ 128,432,968</u>	<u>\$ 129,325,024</u>	<u>\$ 130,047,657</u>	<u>\$ 139,366,169</u>
K-12 Average Daily Attendance at P-2 <sup>4</sup>	<u>7,261</u>	<u>7,337</u>	<u>7,962</u>	<u>7,962</u>

The General Fund balance has increased by \$14,732,925 over the past two years. The fiscal year 2022-2023 budget projects a decrease of \$3,472,707 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 2022-2023 fiscal year. Total long-term liabilities have decreased by \$10,041,145 over the past two years.

Average daily attendance has decreased by 625 over the past two years. An additional decrease of 76 ADA is anticipated in fiscal year 2022-2023.

<sup>1</sup> Financial information for 2023, 2021, and 2020 are included for analytical purposes only and has not been subjected to audit.

<sup>2</sup> 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.

<sup>3</sup> Long-term liabilities amount excluded pension and OPEB liabilities.

<sup>4</sup> 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, 2022

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<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, 2022

	Student Activity Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Capital Project Fund	Bond Interest and Redemption Fund	Total Non-Major Governmental Funds
<b>Assets</b>								
Deposits and investments	\$ 941,978	\$ 445,895	\$ 2,234	\$ 1,329,040	\$ 368,027	\$ 2,565,007	\$ 2,909,197	\$ 8,561,378
Receivables	-	96,738	9,805	818,796	947	6,020	2,525	934,831
Due from other funds	-	13,904	-	-	-	-	-	13,904
<b>Total assets</b>	<b><u>\$ 941,978</u></b>	<b><u>\$ 556,537</u></b>	<b><u>\$ 12,039</u></b>	<b><u>\$ 2,147,836</u></b>	<b><u>\$ 368,974</u></b>	<b><u>\$ 2,571,027</u></b>	<b><u>\$ 2,911,722</u></b>	<b><u>\$ 9,510,113</u></b>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balances</b>								
<b>Liabilities</b>								
Accounts payable	\$ -	\$ 976	\$ -	\$ 19,772	\$ -	\$ 414,655	\$ 127	\$ 435,530
Due to other funds	-	-	12,039	111,669	-	-	-	123,708
Unearned revenue	-	-	-	31,686	-	-	-	31,686
<b>Total liabilities</b>	<b><u>-</u></b>	<b><u>976</u></b>	<b><u>12,039</u></b>	<b><u>163,127</u></b>	<b><u>-</u></b>	<b><u>414,655</u></b>	<b><u>127</u></b>	<b><u>590,924</u></b>
<b>Fund Balances</b>								
Nonspendable	-	5,000	-	1,000	-	-	-	6,000
Restricted	941,978	227,490	-	1,983,709	-	2,156,372	2,911,595	8,221,144
Committed	-	323,071	-	-	368,974	-	-	692,045
<b>Total fund balances</b>	<b><u>941,978</u></b>	<b><u>555,561</u></b>	<b><u>-</u></b>	<b><u>1,984,709</u></b>	<b><u>368,974</u></b>	<b><u>2,156,372</u></b>	<b><u>2,911,595</u></b>	<b><u>8,919,189</u></b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b><u>\$ 941,978</u></b>	<b><u>\$ 556,537</u></b>	<b><u>\$ 12,039</u></b>	<b><u>\$ 2,147,836</u></b>	<b><u>\$ 368,974</u></b>	<b><u>\$ 2,571,027</u></b>	<b><u>\$ 2,911,722</u></b>	<b><u>\$ 9,510,113</u></b>

**Morgan Hill Unified School District**  
**Combining Statement of Revenues, Expenditure, and Changes in Fund Balances – Non-Major Governmental Funds**  
**Year Ended June 30, 2022**

	Student Activity Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Capital Project Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds
<b>Revenues</b>								
Federal sources	\$ -	\$ 92,111	\$ 7,200	\$ 4,707,341	\$ -	\$ -	\$ -	\$ 4,806,652
Other State sources	-	596,117	177,950	344,417	-	-	21,647	1,140,131
Other local sources	1,126,622	(1,070)	32	(28,691)	(7,870)	520,296	5,087,691	6,697,010
Total revenues	1,126,622	687,158	185,182	5,023,067	(7,870)	520,296	5,109,338	12,643,793
<b>Expenditures</b>								
Current								
Instruction	-	294,451	173,321	-	-	-	-	467,772
Instruction-related activities								
Supervision of instruction	-	61,462	-	-	-	-	-	61,462
School site administration	-	333,324	-	-	-	-	-	333,324
Pupil services								
Food services	-	-	-	4,027,672	-	-	-	4,027,672
Administration								
All other administration	-	28,417	11,861	110,893	-	-	-	151,171
Plant services	-	-	-	-	-	7,140	-	7,140
Ancillary services	1,030,784	-	-	-	-	-	-	1,030,784
Facility acquisition and construction	-	-	-	-	-	435,500	-	435,500
Debt service								
Principal	-	-	-	-	-	-	445,000	445,000
Interest and other	-	-	-	-	-	-	4,370,807	4,370,807
Total expenditures	1,030,784	717,654	185,182	4,138,565	-	442,640	4,815,807	11,330,632
Excess (Deficiency) of Revenues Over Expenditures	95,838	(30,496)	-	884,502	(7,870)	77,656	293,531	1,313,161
Other Financing Sources (Uses)								
Transfers in	-	13,904	-	-	-	-	-	13,904
Net Financing Sources (Uses)	-	13,904	-	-	-	-	-	13,904
Net Change in Fund Balances	95,838	(16,592)	-	884,502	(7,870)	77,656	293,531	1,327,065
Fund Balance - Beginning, as restated	846,140	572,153	-	1,100,207	376,844	2,078,716	2,618,064	7,592,124
Fund Balance - Ending	\$ 941,978	\$ 555,561	\$ -	\$ 1,984,709	\$ 368,974	\$ 2,156,372	\$ 2,911,595	\$ 8,919,189

## **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 District under programs of the federal government for the year ended June 30, 2022. 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 District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the 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.

#### **Local Education Agency Organization Structure**

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

#### **Schedule of Average Daily Attendance (ADA)**

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

### **Schedule of Instructional Time**

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. The District has met its target funding. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *Education Code* Sections 46200 through 46207.

Districts must maintain their instructional minutes at the 1986-87 requirements, as required by *Education Code* Section 46201.

### **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 District, and displays information for each Charter School on whether or not the Charter School is included in the District audit.

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

These schedules are 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, 2022

**Morgan Hill Unified School District**

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Morgan Hill Unified School District (District), as of and for the year ended June 30, 2022, 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 4, 2023.

**Report on 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 or significant deficiencies may exist that have not been identified.

### **Report on 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 4, 2023



## **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**

#### ***Qualified and Unmodified Opinions***

We have audited Morgan Hill Unified School District’s (District) compliance with the types of compliance requirements identified as subject to audit 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, 2022. 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.

#### ***Qualified Opinion on Elementary and Secondary School Emergency Relief (Assistance Listing Number 84.425)***

In our opinion, except for the noncompliance described in the Basis for Qualified and Unmodified Opinions section of our report, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on Elementary and Secondary School Emergency Relief (Assistance Listing Number 84.425) for the year ended June 30, 2022.

#### ***Unmodified Opinion on Each of the Other Major Federal Programs***

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2022.

#### ***Basis for Qualified and Unmodified Opinions***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified and unmodified opinion on compliance for each major federal program. Our audit does not provide a legal determination of the District's compliance with the compliance requirements referred to above.

*Matter Giving Rise to Qualified Opinion on Elementary and Secondary School Emergency Relief (Assistance Listing Number 84.425).*

As described in the accompanying schedule of findings and questioned costs, the District did not comply with the Special Tests and Provisions - Private School Participation requirements regarding Elementary and Secondary School Emergency Relief (Assistance Listing Number 84.425) as described in finding number 2022-001 for Special Tests and Provisions.

Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to that program.

### ***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the District's federal programs.

### ***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the District's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

- Obtain an understanding of the District’s internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the District’s internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

*Government Auditing Standards* requires the auditor to perform limited procedures on the District’s response to the noncompliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The District’s response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control over Compliance**

Our consideration of internal control over compliance was for the limited purpose described in the Auditor’s Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses.

*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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2022-001 to be a material weakness.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

*Government Auditing Standards* requires the auditor to perform limited procedures on the District’s response to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The District’s response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

*Eide Bailly LLP*

Menlo Park, California  
January 4, 2023



## Independent Auditor's Report on State Compliance

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

### Report on Compliance

#### Opinion on State Compliance

We have audited Morgan Hill Unified School District's (District) compliance with the requirements specified in the *2021-2022 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, applicable to the District's state program requirements identified below for the year ended June 30, 2022.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that are applicable to the laws and regulations of the state programs noted in the table below for the year ended June 30, 2022.

#### *Basis for Opinion*

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS), the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *2021-2022 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit does not provide a legal determination of the District's compliance with the compliance requirements referred to above.

### ***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the District's state programs.

### ***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the *2021-2022 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* will always detect a material noncompliance when it exists. The risk of not detecting a material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the District's compliance with the requirements of the state programs as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the *2021-2022 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the District's compliance with the compliance requirements referred to above and performing such other procedures as we consider necessary in the circumstances.
- Obtain an understanding of the District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the *2021-2022 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, but not for the purpose of expressing an opinion on the effectiveness of the District's internal controls over compliance. Accordingly, we express no such opinion; and
- Select and test transactions and records to determine the District's compliance with the state laws and regulations applicable to the following items:

**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:

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

#### Early Retirement Incentive

The District did not have any employees retire under the CalSTRS Early Retirement Incentive program; therefore, testing was not required.

#### Juvenile Court Schools

We did not perform Juvenile Court Schools procedures because the program is not offered by the District.

#### Middle or Early College High Schools

We did not perform Middle or Early College High Schools procedures because the program is not offered by the District.

#### 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.

#### California Clean Energy Jobs Act

We did not perform California Clean Energy Jobs Act procedures because the related procedures were performed in a previous year.

#### Immunization

The District was not listed on the immunization assessment reports; therefore, we did not perform any related procedures.

#### Charter Schools

The District does not operate any Charter Schools; therefore, we did not perform procedures for Charter School Programs.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identify during the audit.

### **Report on Internal Control over Compliance**

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

*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 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 a material noncompliance with a compliance requirement 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 that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention from those charged with governance.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 *2021-2022 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.

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 printed name and date.

Menlo Park, California  
January 4, 2023

**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	Yes
Significant deficiencies identified not considered to be material weaknesses	None Reported

Type of auditor's report issued on compliance for major programs:  
 Unmodified for the Child Nutrition Cluster-National School Lunch and School Breakfast Program (Assistance Listing Numbers 10.555, 10.553)  
 Qualified for COVID-19 - Emergency Stabilization Fund - ESSER I, ESSER II, ESSER III and GEER II (Assistance Listing Numbers 84.425D, 84.425U, 84.425C)

Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516(a): Yes

**Identification of major programs:**

<u>Name of Federal Program or Cluster</u>	<u>Federal Financial Assistance Listing/ Federal CFDA Number</u>
Child Nutrition Cluster-National School Lunch and School Breakfast Program	10.555, 10.553
COVID-19 - Emergency Stabilization Fund - ESSER I, ESSER II, ESSER III and GEER II	84.425D, 84.425U, 84.425C

Dollar threshold used to distinguish between type A \$ 750,000

Auditee qualified as low-risk auditee? Yes

**State Compliance**

Internal control over state compliance programs:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None Reported

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

None reported.

The following finding represent a material weakness/noncompliance that is required to be reported by the Uniform Guidance. The finding has been coded as follows:

Five Digit Code	AB 3627 Finding Type
50000	Federal Compliance

**2022-001      50000 – Special Tests and Provisions - Participation of Private School Children**

**Program Name:** COVID-19 - Elementary and Secondary School Emergency Relief (ESSER I)

**Type of Finding:** Material Weakness in Internal Control Over Compliance and Material Noncompliance

**Federal Financial Assistance Listing/Federal CFA Number:** 84.425D

**Contract Number:** 15536

**Federal Agency:** U.S. Department of the Education

**Pass-Through Entity:** California Department of Education

**Award Year:** 2021-2022

**Compliance Requirement:** Special Tests and Provisions-Private School Participation

**Criteria or Specific Requirements**

Per Title 34, Code of Federal Regulations, Part 200, Subpart A, Section 200.63(a), local education agencies (LEAs) must provide timely and meaningful consultations with appropriate officials of private schools. For programs under Elementary and Secondary School Emergency Relief (ESSER I), an LEA that receives funds under one or both of those programs must provide equitable services in the same manner as provided under section 1117 of Title I, Part A of the Elementary and Secondary Education Act (ESEA) (20 USC 6320) to students and teachers in private schools as determined in consultation with private school officials (section 18005(a) of the CARES Act).

**Condition**

Through inquiry with District personnel, it appears that the District did not perform the necessary procedures to ensure that equitable services were provided to the only two private schools within the District.

**Questioned Costs**

There were no questioned costs identified.

**Context/Sampling**

The condition was identified as a result of the auditor's inquiry with District personnel and review of supporting documents. There are five private schools operating within the District boundaries.

**Effect**

The District was not in compliance with Title 34, Code of Federal Regulations, Part 200, Subpart A, Section 200.63(a).

Cause

The condition identified appears to have materialized due to District personnel being unaware that equitable services were required to be provided to private schools under ESSER I program.

Repeat Finding

No

Recommendation

It is recommended that the District perform the proportionate share of funding for equitable services for private schools to demonstrate compliance with provisions under Title 34, Code of Federal Regulations, Part 200, Subpart A, Section 200.63(a).

Views of Responsible Officials

The District agreed with the finding and the accompanying financial statements reflected this change. Further, the District is in the process of sending notifications to the private schools about participation opportunities for the past fiscal year ended June 30, 2022. These notifications will allow the private schools to receive participation opportunities in combination with the June 30, 2023 participation opportunities.

None reported.

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