



Financial Statements
June 30, 2024

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, 2024, 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, 2024, 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 on pages 5 through 13, budgetary comparison information on pages 57, schedule of changes in the District's total OPEB liability and related ratios on page 58, schedule of the District's proportionate share of the net pension liability on page 59, schedule of the District's contributions for pension on page 60, and the schedule of the District pension contributions on page 60, 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 GAAS, 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 combining nonmajor governmental fund financial statements, 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*, 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 GAAS. In our opinion, Schedule of Expenditures of Federal Awards, the 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 Information

Management is responsible for the other information included in the financial statements. The other information comprises the Local Education Agency Organization Structure but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2025, on our consideration of 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 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.

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

Menlo Park, California
January 31, 2025



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, 2024. 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

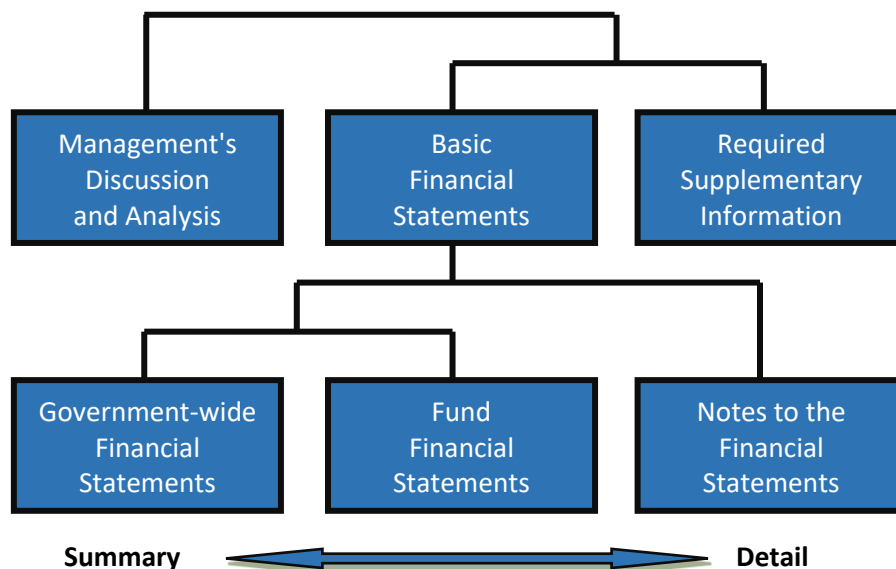
Financial and Program Highlights

- The District's current and other assets decreased by \$34,286,166 due to bond proceeds being spent.
- Capital assets increased by \$20,090,886 mainly due to current year's capital asset additions.
- The District's deferred outflows of resources increased by \$10,650,038 mainly due to changes in the amounts amortized for pension and OPEB liabilities.
- The District's long-term obligations increased by \$4,987,615 due to mark to market of the investments located with CalSTRS and CalPERS which decreased the fiduciary net position effectively increasing liabilities as well as issuance of new bonds during the year.
- The District's deferred inflows of resources decreased by \$7,751,673 due to changes in the deferrals related to pension and OPEB discussed above.
- The District's Net Position increased by \$8,271,412 mainly due cash and cash equivalents held by the district for future capital projects.
- The District's budgeted a decrease of \$13,665,942 in general fund balance but fund balance decreased by \$5,950,284.

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 (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 2023-2024?"

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, 2024, the District's net position increased by \$8,271,412 to \$196,290,036. 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) decreased to (\$32,935,027) from (\$43,165,557). The increase in the overall net position was related to increase in the District's revenues from COVID grants and collection of developer fees.

(Table 1)
Comparative Condensed Statement of Net Position

	Governmental Activities			Percentage
	2024	2023	Change	Change
Assets				
Current and other assets	\$ 154,981,267	\$ 189,267,433	\$ (34,286,166)	-18%
Capital assets	322,058,808	301,967,922	20,090,886	7%
Total assets	477,040,075	491,235,355	(14,195,280)	-3%
Deferred Outflows of Resources	42,215,454	31,565,416	10,650,038	34%
Liabilities				
Current liabilities	10,541,168	19,593,764	(9,052,596)	-46%
Long-term liabilities	296,380,701	291,393,086	4,987,615	2%
Total liabilities	306,921,869	310,986,850	(4,064,981)	-1%
Deferred Inflows of Resources	16,043,624	23,795,297	(7,751,673)	-33%
Net Position				
Net investment in capital assets	184,233,516	179,513,508	4,720,008	3%
Restricted	44,991,547	51,668,673	(6,677,126)	-13%
Unrestricted	(32,935,027)	(43,163,557)	10,228,530	-24%
Total net position	\$ 196,290,036	\$ 188,018,624	\$ 8,271,412	4%

The District's net position increased by \$8,271,412 for this fiscal year (see Table 2). The District's charges for services decreased by \$435,944 mainly due to a decrease in transportation fees from individuals and Interagency services. The District's grants increased by \$6,506,206 mainly due to continued reimbursement of COVID funding received from the state. The District's changes in instruction expenses in the amount of \$10,949,387 is mainly due to the increase in pension related liabilities. Other changes in expenses were mainly due to changes in the OPEB liabilities.

(Table 2)

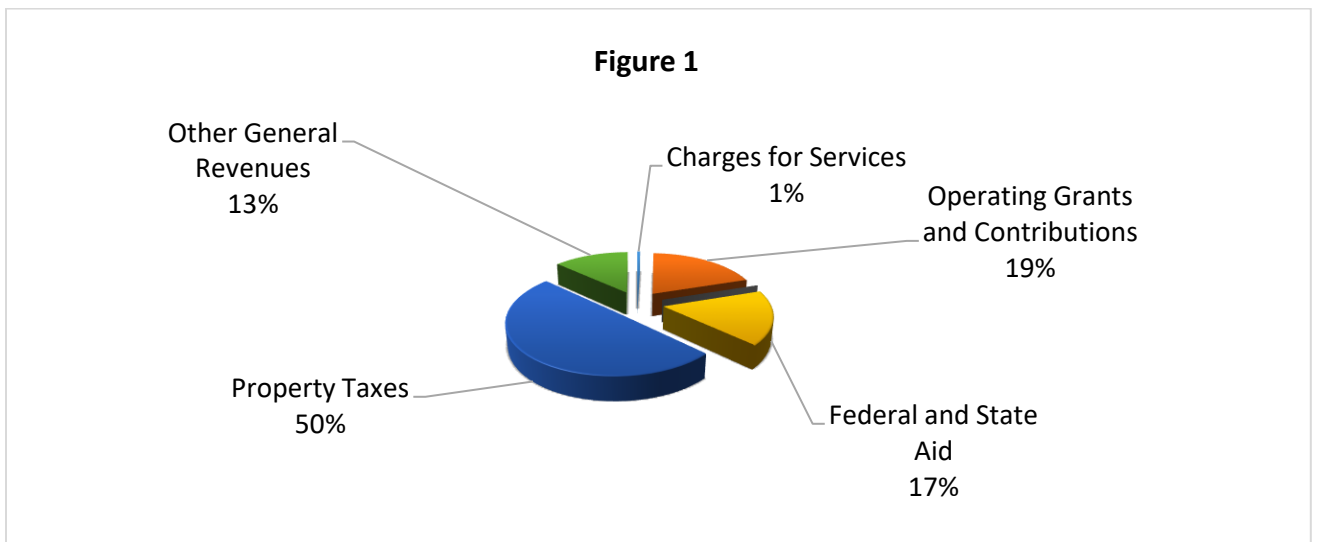
Comparative Condensed Statement of Changes in Net Position

	Governmental Activities			Percentage
	2024	2023	Change	Change
Revenues				
Program revenues				
Charges for services	\$ 854,425	\$ 1,290,369	\$ (435,944)	-34%
Operating grants and contributions	32,996,324	39,502,530	(6,506,206)	-16%
General revenues				
Federal and State aid not restricted	28,930,125	37,363,818	(8,433,693)	-23%
Property taxes	84,526,127	78,103,084	6,423,043	8%
Other general revenues	22,412,078	472,091	21,939,987	4647%
Total revenues	169,719,079	156,731,892	12,987,187	8%
Expenses				
Instruction-related	102,544,037	91,594,650	10,949,387	12%
Pupil services	20,638,321	17,823,291	2,815,030	16%
Administration	7,863,999	7,902,208	(38,209)	0%
Plant services	15,023,338	12,957,178	2,066,160	16%
All other services	15,377,972	11,361,244	4,016,728	35%
Total expenses	161,447,667	141,638,571	19,809,096	14%
Change in net position	\$ 8,271,412	\$ 15,093,321	(6,821,909)	-45%

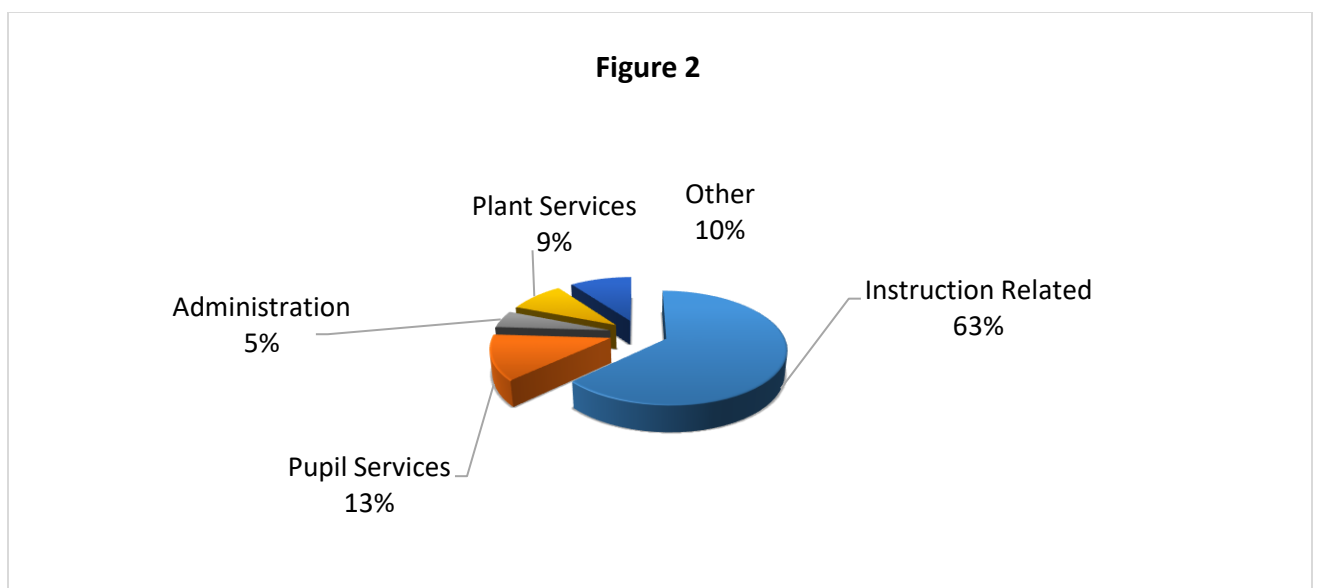
Governmental Activities

As reported in the Statement of Activities, the cost of all the District's governmental activities this year was \$127,596,918. The amount that our local taxpayers financed for these activities through property taxes was \$84,526,127 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 2023-2024 Fiscal Year



Expenses for the 2023-2024 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 \$147,577,552, a decrease of \$23,912,373 from the previous fiscal year. This decrease is primarily the result of the draw down of fund balance to fund capital projects related to Measure G.

The general fund reported a decrease of \$6,070,086 and was the result of spending down carryovers of COVID grants. The Building fund reported a decrease in fund balance for \$19,691,044 due to the draw down of fund balance to fund capital projects related to Measure G.

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 \$54,386,585 (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 in the Unrestricted General Fund was \$41,235,235.

Per CALPADS census date, enrollment at the beginning of the 2025 fiscal year was 7,826 which is a slight decrease from the prior year. We continue to monitor the changes in the economy and changes in the District's enrollment.

Capital Asset Long-Term Liabilities

Capital Assets

By the end of the 2023-2024 fiscal year, the District had an investment in capital assets for \$442,917,691 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 \$322,058,808 at June 30, 2024 which is an increase of \$20.0 million from the previous year primarily due to completed bond projects (see Note 5 in the Financial Statements).

(Table 3)

	Governmental Activities	
	2024	2023
Capital Assets		
Land and construction in progress	\$ 66,908,329	\$ 48,413,439
Buildings and improvements	374,370,226	364,432,300
Equipment	1,639,136	1,766,419
Total	<u>\$ 442,917,691</u>	<u>\$ 414,612,158</u>

Long-Term Liabilities

As of June 30, 2024, the District had \$296,380,701 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	
	2024	2023
Long-Term Liabilities		
General obligation bonds	\$ 162,395,000	\$ 165,945,000
Certificates of participation	13,505,000	13,505,000
Unamortized premiums/(discounts)	16,040,188	16,846,238
Compensated absences	270,528	216,356
Total OPEB liability	3,554,412	9,213,382
Aggregate net pension liability	100,615,573	85,667,110
Total	<u>\$ 296,380,701</u>	<u>\$ 291,393,086</u>

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, 2024

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 133,080,532
Restricted cash and cash equivalents	11,317,826
Receivables	10,581,984
Prepaid expense	925
Capital assets not depreciated	66,908,329
Capital assets, net of accumulated depreciation	255,150,479
Total assets	<u>477,040,075</u>
Deferred Outflows of Resources	
Deferred charge on refunding	681,967
Deferred outflows of resources related to OPEB	3,198,927
Deferred outflows of resources related to pensions	38,334,560
Total deferred outflows of resources	<u>42,215,454</u>
Liabilities	
Accounts payable	5,759,181
Interest payable	3,137,453
Unearned revenue	1,644,534
Long-term liabilities	
Long-term liabilities other than OPEB and pension	
Due within one year	4,884,898
Long-term liabilities other than OPEB and	
Due in more than one year	187,325,818
Total other postemployment benefits (OPEB) liability	3,554,412
Aggregate net pension liabilities	100,615,573
Total liabilities	<u>306,921,869</u>
Deferred Inflows of Resources	
Deferred inflows of resources related to OPEB	11,434,911
Deferred inflows of resources related to pensions	4,608,713
Total deferred inflows of resources	<u>16,043,624</u>
Net Position	
Net investment in capital assets	184,233,516
Restricted for	
Debt service	5,349,903
Capital projects	22,235,391
Educational programs	13,309,797
Food service	3,051,457
Student activity	1,044,999
Unrestricted	(32,935,027)
Total net position	<u>\$ 196,290,036</u>

Morgan Hill Unified School District

Statement of Activities
Year Ended June 30, 2024

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	\$ 85,982,617	\$ 27,825	\$ 15,358,640	\$ (70,596,152)
Instruction-related activities				
Supervision of instruction	3,861,226	3,642	604,575	(3,253,009)
Instructional library, media, and technology	822,994	160	38,016	(784,818)
School site administration	11,877,200	363	2,489,258	(9,387,579)
Pupil services				
Home-to-school transportation	4,382,794	18,703	85,912	(4,278,179)
Food services	4,569,215	4,150	5,414,623	849,558
All other pupil services	11,686,312	9,832	3,493,300	(8,183,180)
Administration				
Data processing	1,487,451	-	-	(1,487,451)
All other administration	6,376,548	529	772,061	(5,603,958)
Plant services	15,023,338	4,394	22,459	(14,996,485)
Ancillary services	2,517,432	-	1,416,975	(1,100,457)
Community services	32,216	-	-	(32,216)
Interest on long-term liabilities	8,643,438	-	-	(8,643,438)
Other outgo	4,184,886	784,827	3,300,505	(99,554)
Total governmental activities	<u>\$ 161,447,667</u>	<u>\$ 854,425</u>	<u>\$ 32,996,324</u>	<u>\$ (127,596,918)</u>
General Revenues and Subventions				
Property taxes, levied for general purposes				76,010,649
Property taxes, levied for debt service				8,041,037
Taxes levied for other specific purposes				474,441
Federal and State aid not restricted to specific purposes				28,930,125
Interest and investment earnings				5,647,582
Miscellaneous				16,764,496
Total general revenues and transfers				<u>135,868,330</u>
Change in Net Position				8,271,412
Net Position - Beginning				<u>188,018,624</u>
Net Position - Ending				<u>\$ 196,290,036</u>

Morgan Hill Unified School District
Balance Sheet – Governmental Funds
June 30, 2024

	General Fund	Building Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 55,050,690	\$ 43,284,018	\$ 18,810,966	\$ 15,934,858	\$ 133,080,532
Restricted cash and cash equivalents	-	11,317,826	-	-	11,317,826
Receivables	8,517,003	793,580	501,836	769,565	10,581,984
Due from other funds	286,346	312	-	-	286,658
Prepaid expenditures	925	-	-	-	925
Total assets	<u>\$ 63,854,964</u>	<u>\$ 55,395,736</u>	<u>\$ 19,312,802</u>	<u>\$ 16,704,423</u>	<u>\$ 155,267,925</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances					
Liabilities					
Accounts payable	\$ 3,526,478	\$ 1,962,807	\$ 59,875	\$ 210,021	\$ 5,759,181
Due to other funds	-	-	71,031	215,627	286,658
Unearned revenue	1,594,204	-	-	50,330	1,644,534
Total liabilities	<u>5,120,682</u>	<u>1,962,807</u>	<u>130,906</u>	<u>475,978</u>	<u>7,690,373</u>
Fund Balances					
Nonspendable	15,425	-	-	6,000	21,425
Restricted	13,151,349	53,432,929	19,181,896	15,463,578	101,229,752
Committed	-	-	-	758,867	758,867
Unassigned	45,567,508	-	-	-	45,567,508
Total fund balances	<u>58,734,282</u>	<u>53,432,929</u>	<u>19,181,896</u>	<u>16,228,445</u>	<u>147,577,552</u>
Total liabilities and fund balances	<u>\$ 63,854,964</u>	<u>\$ 55,395,736</u>	<u>\$ 19,312,802</u>	<u>\$ 16,704,423</u>	<u>\$ 155,267,925</u>

Morgan Hill Unified School District
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2024

Total Fund Balance - Governmental Funds		\$ 147,577,552
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	\$ 442,917,691	
Accumulated depreciation and amortization is	<u>(120,858,883)</u>	
Net capital assets		322,058,808
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.		(3,137,453)
Deferred outflows of resources represent a consumption of net position in a future period and is not reported in the governmental funds. Deferred outflows of resources amounted to and related to		
Debt refundings (deferred Charge on refunding)	681,967	
Other postemployment benefits (OPEB)	3,198,927	
Net pension liability	<u>38,334,560</u>	
Total deferred outflows of resources		42,215,454
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	(11,434,911)	
Net pension obligation	<u>(4,608,713)</u>	
Total deferred inflows of resources		(16,043,624)
Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.		(100,615,573)
The District's OPEB liability is not due and payable in the current period, and is not reported as a liability in the funds.		(3,554,412)
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	(178,476,701)	
Certificates of participation, including unamortized discounts	(13,463,487)	
Compensated absences (vacations)	<u>(270,528)</u>	
Total long-term liabilities		<u>(192,210,716)</u>
Total net position - governmental activities		<u><u>\$ 196,290,036</u></u>

Morgan Hill Unified School District
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
Year Ended June 30, 2024

	General Fund	Building Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
Revenues					
Local control funding formula (LCFF)	\$ 101,214,302	\$ -	\$ -	\$ -	\$ 101,214,302
Federal sources	4,821,881	711,465	-	2,788,100	8,321,446
Other State sources	18,342,423	5,310,608	-	3,527,747	27,180,778
Other local sources	11,039,379	3,571,220	3,180,901	11,040,424	28,831,924
Total revenues	135,417,985	9,593,293	3,180,901	17,356,271	165,548,450
Expenditures					
Current					
Instruction	81,895,184	-	-	765,384	82,660,568
Instruction-related activities					
Supervision of instruction	3,717,320	-	-	49,924	3,767,244
Instructional library, media, and technology	807,803	-	-	-	807,803
School site administration	10,971,431	-	-	533,591	11,505,022
Pupil services					
Home-to-school transportation	4,690,791	-	-	-	4,690,791
Food services	87,721	-	-	4,496,570	4,584,291
All other pupil services	12,094,497	-	-	-	12,094,497
Administration					
Data processing	1,486,634	-	-	-	1,486,634
All other administration	6,118,130	-	-	181,717	6,299,847
Plant services	12,812,374	74,721	11,447	10,758	12,909,300
Ancillary services	1,035,216	-	-	1,369,787	2,405,003
Community services	32,100	-	-	-	32,100
Other outgo	4,184,886	-	-	-	4,184,886
Capital outlay	1,212,221	28,663,555	96,685	417,969	30,390,430
Debt service					
Principal	-	-	-	3,550,000	3,550,000
Interest and other	-	958,855	-	7,133,552	8,092,407
Total expenditures	141,146,308	29,697,131	108,132	18,509,252	189,460,823
Excess (Deficiency) of Revenues Over Expenditures	(5,728,323)	(20,103,838)	3,072,769	(1,152,981)	(23,912,373)
Other Financing Sources (Uses)					
Transfers in	413,781	412,794	-	-	826,575
Transfers out	(755,544)	-	(71,031)	-	(826,575)
Net Financing Sources (Uses)	(341,763)	412,794	(71,031)	-	-
Net Change in Fund Balances	(6,070,086)	(19,691,044)	3,001,738	(1,152,981)	(23,912,373)
Fund Balance - Beginning, as previously reported	64,804,368	73,123,973	-	33,561,584	171,489,925
Adjustments (Note 16)	-	-	16,180,158	(16,180,158)	-
Fund Balance - Beginning, as restated	64,804,368	73,123,973	16,180,158	17,381,426	171,489,925
Fund Balance - Ending	\$ 58,734,282	\$ 53,432,929	\$ 19,181,896	\$ 16,228,445	\$ 147,577,552

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, 2024

Total Net Change in Fund Balances - Governmental Funds \$ (23,912,373)

Amounts Reported for Governmental Activities in the Statement of Activities are Different Because

Capital outlay 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 expense in the Statement of Activities.

This is the amount by which capital outlays differs from depreciation and amortization expense

Depreciation and amortization expense	\$	(9,766,724)
Capital outlay		<u>30,275,808</u>

Net expense adjustment		20,509,084
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Payment of general obligation bonds of the District is reported as an expenditure on the governmental fund but reduces long-term liabilities on the governmental activities statement of net position		3,550,000
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Loss on disposal of capital assets is reported in the government-wide Statement of Net Position, but is not recorded in the governmental funds.		(418,198)
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In the Statement of Activities, certain operating expenses, such as compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This amount is the difference between vacation earned and used.		(54,172)
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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.		528,556
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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.		8,619,546
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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, 2024

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	819,890
Discount amortization	(13,840)

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.

(1,357,081)

Change in net position of governmental activities

\$ 8,271,412

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 out 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).

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

Debt Service Funds The funds are used to accumulate resources for payment of principal and interest.

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

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 of capital assets and amortization of leased assets and subscription IT assets. 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, 2024.

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 Issuance Costs, 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, as well as issuance costs related to prepaid insurance costs are amortized over the life of the bonds using the straight-line method which approximates the effective interest rate method.

In governmental fund financial statements, bond premiums and discounts, as well as debt issuance costs are recognized in the period the bonds are issued. The face amount of the debt is reported as other financing sources. Premiums received on debt issuance are also reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds, are reported as debt service expenditures in the period the bonds are issued.

Fund Balances - Governmental Funds

As of June 30, 2024, fund balances of the governmental funds are classified as follows:

Non-spendable - 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.

Note 2 - Deposits and Investments

Summary of Deposits and Investments

Deposits and investments as of June 30, 2024, are classified in the accompanying financial statements as follows:

Governmental funds	
Cash and cash equivalents	\$ 133,080,532
Restricted cash and cash equivalents	<u>11,317,826</u>
Total cash and cash equivalents	<u><u>\$ 144,398,358</u></u>

Deposits and investments as of June 30, 2024, consist of the following:

Cash on hand and in banks	\$ 1,044,999
Cash with fiscal agent	11,317,826
Cash in revolving	20,500
Cash in county pool	<u>132,015,033</u>
Total deposits and investments	<u><u>\$ 144,398,358</u></u>

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 of the \$132,015,033 District's investment in the County Pool is 648 days as of June 30, 2024. The District also invested in a guaranteed investment contract related to its certificates of participation for \$11,317,826 which matures on May 1, 2027.

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 and the guaranteed investment contract are not rated as of June 30, 2024.

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. The District's deposits are not subject to significant risks because such deposits were either covered the Federal Deposit Insurance Corporation or covered by the California Government Code described above.

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 \$132,015,033 investment in the Santa Clara County pool and its \$11,317,826 guaranteed investment with the fiscal agent at U.S. Bank are not subject to the fair value measurement requirements.

Note 4 - Receivables

Receivables on June 30, 2024, 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	\$ 4,040,268	\$ 355,291	\$ -	\$ 255,482	\$ 4,651,041
State Government					
LCFF apportionment	390,928	-	-	-	390,928
Categorical aid	1,337,885	-	-	335,193	1,673,078
Lottery	500,570	-	-	-	500,570
Local Government					
Interest	697,952	438,289	179,063	108,278	1,423,582
Other local sources	1,549,400	-	322,773	70,612	1,942,785
Total	<u>\$ 8,517,003</u>	<u>\$ 793,580</u>	<u>\$ 501,836</u>	<u>\$ 769,565</u>	<u>\$10,581,984</u>

Note 5 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2024, was as follows:

	Balance July 1, 2023	Additions	Deductions	Balance June 30, 2024
Governmental Activities				
Capital assets not being depreciated or amortized				
Land	\$ 17,615,844	\$ -	\$ -	\$ 17,615,844
Construction in progress	30,797,595	29,143,524	(10,648,634)	49,292,485
Total capital assets not being depreciated or amortized	48,413,439	29,143,524	(10,648,634)	66,908,329
Capital assets being depreciated or amortized				
Buildings and improvements	361,077,444	11,579,186	(1,879,379)	370,777,251
Furniture and equipment	5,121,275	201,732	(90,896)	5,232,111
Total capital assets being depreciated	366,198,719	11,780,918	(1,970,275)	376,009,362
Total capital assets	414,612,158	40,924,442	(12,618,909)	442,917,691
Accumulated depreciation				
Buildings and improvements	(109,289,380)	(9,437,710)	1,461,182	(117,265,908)
Furniture and equipment	(3,354,856)	(329,014)	90,895	(3,592,975)
Total accumulated depreciation	(112,644,236)	(9,766,724)	1,552,077	(120,858,883)
Governmental activities capital assets, net	<u>\$ 301,967,922</u>	<u>\$ 31,157,718</u>	<u>\$ (11,066,832)</u>	<u>\$ 322,058,808</u>

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

Governmental Activities	
Instruction	\$ 6,624,771
Supervision of instruction	301,923
Instructional library, media, and technology	64,741
School site administration	921,320
Ancillary services	192,747
Community services	2,573
All other administration	504,897
Plant services	119,145
Facility acquisition and construction	1,034,607
Total depreciation expense governmental activities	<u>\$ 9,766,724</u>

Note 6 - Interfund Transactions

Interfund Receivables/Payables (Due To/Due From)

Due To	Due From		
	General Fund	Building Fund	Total
Capital Facilities Fund	\$ 71,031	\$ -	\$ 71,031
Non-Major Governmental Funds	215,315	312	215,627
Total	<u>\$ 286,346</u>	<u>\$ 312</u>	<u>\$ 286,658</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, 2024, consisted of the following:

Transfer To	Transfer From		
	General Fund	Building Fund	Total
General Fund	\$ -	\$ 412,794	\$ 412,794
Capital Facilities Fund	71,031	-	71,031
Non-Major Governmental Funds	342,750	-	342,750
Total	<u>\$ 413,781</u>	<u>\$ 412,794</u>	<u>\$ 826,575</u>
General Fund transferred to Building Fund to cover the cost of the solar programs.			
			\$ 412,794
The Capital Facilities Fund transferred to General Fund for the mandated 3% transfer the District collects back form the General Fund for Facilities			
			342,750
Special Reserve Fund transfer to General Fund to cover project expenditures.			
			<u>71,031</u>
Total			<u>\$ 826,575</u>

Note 7 - Accounts Payable

Accounts payable at June 30, 2024, consisted of the following:

	General Fund	Building Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total
Vendor payables	\$ 2,924,697	\$ 1,962,807	\$ 59,875	\$ 201,544	\$ 5,148,923
Salaries and benefits	601,781	-	-	8,477	610,258
Total	<u>\$ 3,526,478</u>	<u>\$ 1,962,807</u>	<u>\$ 59,875</u>	<u>\$ 210,021</u>	<u>\$ 5,759,181</u>

Note 8 - Unearned Revenue

Unearned revenue at June 30, 2024, consists of the following:

	General Fund	Non-Major Governmental Funds	Total
Federal financial assistance	\$ 22,734	\$ -	\$ 22,734
State categorical aid	335,736	50,330	386,066
Other local	1,235,734	-	1,235,734
Total	<u>\$ 1,594,204</u>	<u>\$ 50,330</u>	<u>\$ 1,644,534</u>

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, 2023	Additions	Deductions	Balance June 30, 2024	Due in One Year
Long-Term Liabilities					
General obligation bonds	\$ 165,945,000	\$ -	\$ (3,550,000)	\$ 162,395,000	\$ 3,970,000
Certificates of participation	13,505,000	-	-	13,505,000	-
Unamortized debt premiums	16,901,591	-	(819,890)	16,081,701	819,900
Unamortized debt discounts	(55,353)	-	13,840	(41,513)	13,840
Compensated absences	216,356	72,119	(17,947)	270,528	81,158
Total	<u>\$ 196,512,594</u>	<u>\$ 72,119</u>	<u>\$ (4,373,997)</u>	<u>\$ 192,210,716</u>	<u>\$ 4,884,898</u>

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, 2023	Issued	Redeemed	Defeased	Bonds Outstanding June 30, 2024
2012	2042	2.00%-3.25%	\$ 55,000,000	\$ 645,000	\$ -	\$ (645,000)	\$ -	\$ -
2017	2047	2.69%-5.00%	80,000,000	64,480,000	-	-	-	64,480,000
2023	2042	2.94%-5.25%	63,250,000	63,250,000	-	(2,500,000)	-	60,750,000
2023	2043	5.00%	31,805,000	37,570,000	-	(405,000)	-	37,165,000
				<u>\$ 165,945,000</u>	<u>\$ -</u>	<u>\$ (3,550,000)</u>	<u>\$ -</u>	<u>162,395,000</u>
				Unamortized premium				<u>16,081,701</u>
				Total				<u>\$ 178,476,701</u>

Debt Service Requirements to Maturity

The bonds mature through 2049 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2025	\$ 3,970,000	\$ 8,883,738	\$ 12,853,738
2026	1,725,000	8,712,613	10,437,613
2027	1,765,000	8,598,488	10,363,488
2028	2,140,000	8,467,738	10,607,738
2029	2,545,000	8,310,613	10,855,613
2030-2034	20,640,000	38,181,665	58,821,665
2035-2039	37,585,000	29,341,540	66,926,540
2040-2044	54,075,000	14,826,762	68,901,762
2045-2048	37,950,000	3,181,000	41,131,000
Total	<u>\$ 162,395,000</u>	<u>\$ 128,504,157</u>	<u>\$ 290,899,157</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. The certificates mature through 2027 as follows:

Year Ending June 30,	Principal	Interest	Total
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>\$ 2,876,565</u>	<u>\$ 16,381,565</u>

Compensated Absences

Compensated absences (unpaid employee vacation) for the District at June 30, 2024 amounted to \$270,528.

Note 10 - Total Other Postemployment Benefit (OPEB) Liability

For the fiscal year ended June 30, 2024, 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	Outflows of Resources	Inflows of Resources	OPEB Expense
District Plan	\$ 3,554,412	\$ 3,198,927	\$ 11,434,911	\$ 8,496,211

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, 2022, the valuation date, the Plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits payments	47
Inactive employees entitled to but not yet receiving benefits payments	-
Active employees	150
Total	197

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 2023-2024, the District contributed \$272,210 to the Plan, all of which was used for current premiums.

Total OPEB Liability of the District

The District's total OPEB liability of \$3,554,412 was measured as of June 30, 2023, 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	4.09 percent, net of OPEB plan investment expense, including inflation
Healthcare cost trend rates	4.00 percent for 2023 and after

The discount rate of 4.13% (4.09% in 2023) 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	\$ 9,213,382
Service cost	\$ 213,360
Interest	364,893
Changes of benefit terms	(6,026,487)
Differences between expected and actual experience	(295,095)
Changes of assumptions or other inputs	667,957
Benefit payments	(583,598)
Net change in total OPEB liability	(5,658,970)
Balance, June 30	\$ 3,554,412

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:

Discount Rate	Total OPEB Liability
1% decrease (3.13%)	\$ 3,843,388
Current discount rate (4.13%)	3,554,412
1% increase (5.13%)	3,300,900

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

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

Healthcare Cost Trend Rate	Total OPEB Liability
1% decrease (3%)	\$ 3,488,543
Current healthcare cost trend rate (4%)	3,554,412
1% increase (5%)	3,636,970

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

For the year ended June 30, 2024, the District recognized OPEB expense of \$8,496,211. At June 30, 2024, the District reported deferred outflows of resources and deferred inflow of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	\$ 272,210	\$ -
Differences between expected and actual experience	-	8,663,277
Changes of assumptions	2,926,717	2,771,634
Total	\$ 3,198,927	\$ 11,434,911

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

Morgan Hill Unified School District

Notes to Financial Statements

June 30, 2024

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
2026	\$ (3,047,977)
2027	(3,047,977)
2028	(1,600,765)
2029	(716,122)
2030	(133,587)
Thereafter	38,234
Total	<u><u>\$ (8,508,194)</u></u>

Note 11 - Fund Balances

Fund balances are composed of the following elements:

	General Fund	Building Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total
Nonspendable					
Revolving cash	\$ 14,500	\$ -	\$ -	\$ 5,000	\$ 19,500
Prepaid expenditures	925	-	-	1,000	1,925
Total nonspendable	15,425	-	-	6,000	21,425
Restricted					
Legally restricted programs	13,151,349	-	-	-	13,151,349
Student activity	-	-	-	1,044,999	1,044,999
Adult educational program	-	-	-	158,447	158,447
Child development program	-	-	-	64,299	64,299
Food program	-	-	-	3,050,457	3,050,457
Capital projects	-	53,432,929	19,181,896	2,658,020	75,272,845
Debt services	-	-	-	8,487,356	8,487,356
Total restricted	13,151,349	53,432,929	19,181,896	15,463,578	101,229,752
Committed					
Adult education program	-	-	-	363,392	363,392
Deferred maintenance program	-	-	-	395,475	395,475
Total committed	-	-	-	758,867	758,867
Unassigned					
Reserve for economic uncertainties	4,370,914	-	-	-	4,370,914
Remaining unassigned	41,196,594	-	-	-	41,196,594
Total unassigned	45,567,508	-	-	-	45,567,508
Total	\$58,734,282	\$53,432,929	\$19,181,896	\$16,228,445	\$147,577,552

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 sublimit 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, 2024, 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 2024, 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, 2024, the District reported its proportionate share of net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

Pension Plan	Net Pension Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
CalSTRS	\$ 63,991,578	\$ 25,124,840	\$ 3,740,303	\$ 10,144,302
CalPERS	36,623,995	13,209,720	868,410	5,545,615
Total	<u>\$ 100,615,573</u>	<u>\$ 38,334,560</u>	<u>\$ 4,608,713</u>	<u>\$ 15,689,917</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, 2022, 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 non-employer 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, 2024, are summarized as follows:

	STRP Defined Benefit Program	
	On or before December 31, 2012	On or after January 1, 2013
Hire date		
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	10.25%	10.205%
Required employer contribution rate	19.10%	19.10%
Required state contribution rate	11%	11%

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, 2024, are presented above and the District's total contributions were \$10,915,755.

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

At June 30, 2024, 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	\$ 63,991,578
State's proportionate share of the net pension liability	<u>30,660,165</u>
Total	<u><u>\$ 94,651,743</u></u>

The net pension liability was measured as of June 30, 2023. 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, 2023 and June 30, 2022, respectively was 0.0840 percent and 0.0745 percent, resulting in a net increase in the proportionate share of 0.0095 percent.

For the year ended June 30, 2024, the District recognized its proportionate share pension expense of \$10,144,302. In addition, the District also recorded pension expense and revenue of \$4,170,629 for support provided by the State. At June 30, 2024, 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	\$ 10,915,755	\$ -
Change in proportion and differences between contributions made and District's proportionate share of contributions	8,535,956	316,430
Differences between projected and actual earnings on pension plan investments	273,910	-
Differences between expected and actual experience in the measurement of the total pension liability	5,028,684	3,423,873
Changes of assumptions	<u>370,535</u>	<u>-</u>
Total	<u><u>\$ 25,124,840</u></u>	<u><u>\$ 3,740,303</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:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2026	\$ (2,013,224)
2027	(3,155,075)
2028	5,184,894
2029	257,315
Total	<u>\$ 273,910</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:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2026	\$ 1,451,982
2027	1,708,354
2028	1,633,697
2029	1,649,794
2030	1,861,705
Thereafter	1,889,340
Total	<u>\$ 10,194,872</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, 2022, and rolling forward the total pension liability to June 30, 2023. The financial reporting actuarial valuation as of June 30, 2022, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2022
Measurement date	June 30, 2023
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 expected 20-year geometrically linked real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2023, are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Public equity	38%	5.25%
Fixed income	15%	4.05%
Real estate	14%	6.75%
Private equity	14%	2.45%
Risk mitigating strategies	10%	2.25%
Inflation sensitive	7%	3.65%
Cash/liquidity	2%	0.05%

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:

Discount Rate	Net Pension Liability
1% decrease (6.10%)	\$ 107,340,766
Current discount rate (7.10%)	63,991,578
1% increase (8.10%)	27,985,025

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, 2022 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, 2024, 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%	8.00%
Required employer contribution rate	26.680%	26.680%

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, 2024, are presented above and the total District contributions were \$5,302,718.

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

As of June 30, 2024, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$36,623,995. The net pension liability was measured as of June 30, 2023. 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, 2023 and June 30, 2022, respectively was 0.1012 percent and 0.0985 percent, resulting in a net increase in the proportionate share of 0.0027 percent.

For the year ended June 30, 2024, the District recognized pension expense of \$5,545,615. At June 30, 2024, 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	\$ 5,302,718	\$ -
Change in proportion and differences between contributions made and District's proportionate share of contributions	971,270	305,919
Differences between projected and actual earnings on pension plan investments	3,911,966	-
Differences between expected and actual experience in the measurement of the total pension liability	1,336,513	562,491
Changes of assumptions	1,687,253	-
Total	<u>\$ 13,209,720</u>	<u>\$ 868,410</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:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2026	\$ 729,733
2027	432,313
2028	2,628,176
2029	121,744
Total	<u>\$ 3,911,966</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 3.9 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2026	\$ 1,204,558
2027	1,384,114
2028	537,954
Total	<u>\$ 3,126,626</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, 2022, and rolling forward the total pension liability to June 30, 2023. The financial reporting actuarial valuation as of June 30, 2022, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2022
Measurement date	June 30, 2023
Experience study	July 1, 1997 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	6.90%
Investment rate of return	6.90%
Consumer price inflation	2.30%
Wage growth	Varies by entry age and service

The mortality table used was developed based on CalPERS-specific data. The rates incorporate Generational Mortality to capture ongoing mortality improvement using 80% of Scale MP-2020 published by the Society of Actuaries.

In determining the long-term expected rate of return, CalPERS took into account long-term market return expectations as well as the expected pension fund cash flows. Projected returns for all asset classes are estimated and, combined with risk estimates, are used to project compound (geometric) returns over the long term. The discount rate used to discount liabilities was informed by the long-term projected portfolio return. 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 - cap-weighted	30.00%	4.54%
Global Equity non-cap-weighted	12.00%	3.84%
Private Equity	13.00%	7.28%
Treasury	5.00%	0.27%
Mortgage-backed Securities	5.00%	0.50%
Investment Grade Corporates	10.00%	1.56%
High Yield	5.00%	2.27%

Discount Rate

The discount rate used to measure the total pension liability was 6.90 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 (5.90%)	\$ 52,948,830
Current discount rate (6.90%)	36,623,995
1% increase (7.90%)	23,131,890

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 \$15,398,730. 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, 2024.

Construction Commitments

As of June 30, 2024, the District had the following commitments with respect to unfinished capital projects:

Capital Project	Remaining Construction Commitment	Expected Date of Completion
Britton Student Union/Admin	\$ 23,763,569	May 2024
Nordstrom Admin	264,308	August 2023
Live Oak Gym Mod	1,019,839	March 2024
Deferred Maintenance Projects	5,265,133	August 2025
FACE Center	27,533	June 2024
Total	\$ 30,340,382	

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.

Note 16 - Restatement

Change within the Reporting Entity

During fiscal year 2023-2024, there was a change within the financial reporting entity which resulted in the capital facilities fund being reported as a major fund instead of as a nonmajor fund which resulted in a restatement of the beginning fund balance as follows:

	Governmental Funds	
	Capital Facilities Fund	Non-Major Governmental Funds
Beginning, as previously reported on June 30, 2023	\$ -	\$ 33,561,584
Change to or within the financial reporting entity	<u>16,180,158</u>	<u>(16,180,158)</u>
Beginning, as Restated on July 1, 2023	<u>\$ 16,180,158</u>	<u>\$ 17,381,426</u>



Required Supplementary Information
June 30, 2024

Morgan Hill Unified School District

Morgan Hill Unified School District
Budgetary Comparison Schedule – General Fund
Year Ended June 30, 2024

	Budgeted Amounts		Actual	Variances - Positive (Negative)
	Original	Final		Final to Actual
Revenues				
Local control funding formula	\$ 100,371,680	\$ 100,371,680	\$ 101,214,302	\$ 842,622
Federal sources	4,263,691	3,894,830	4,821,881	927,051
Other State sources	16,003,811	16,003,811	18,342,423	2,338,612
Other local sources	6,893,933	6,893,933	10,816,431	3,922,498
Total revenues	127,533,115	127,164,254	135,195,037	8,030,783
Expenditures				
Current				
Certificated salaries	60,598,060	60,598,060	60,010,102	587,958
Classified salaries	20,012,683	20,012,683	19,464,075	548,608
Employee benefits	33,555,253	33,555,253	32,122,930	1,432,323
Books and supplies	4,842,379	4,842,379	5,488,395	(646,016)
Services and operating expenditures	16,842,265	16,842,265	18,776,508	(1,934,243)
Other outgo	4,430,187	4,430,188	4,003,170	427,018
Capital outlay	590,436	590,436	1,281,128	(690,692)
Total expenditures	140,871,263	140,871,264	141,146,308	(275,044)
Excess (Deficiency) of Revenues Over Expenditures	(13,338,148)	(13,707,010)	(5,951,271)	7,755,739
Other Financing Sources (Uses)				
Transfers in	3,198,079	3,198,079	413,781	(2,784,298)
Transfers out	(3,525,873)	(3,525,873)	(412,794)	3,113,079
Net financing sources (uses)	(327,794)	(327,794)	987	328,781
Net Change in Fund Balances	(13,665,942)	(14,034,804)	(5,950,284)	8,084,520
Fund Balance - Beginning	60,336,868	60,336,868	60,336,868	-
Fund Balance - Ending	<u>\$ 46,670,926</u>	<u>\$ 46,302,064</u>	<u>\$ 54,386,584</u>	<u>\$ 8,084,520</u>
Special Reserve Fund for Other Than Capital Outlay Projects			4,046,403	
Special Reserve Fund for Postemployment Benefits			301,295	
Fund Balance - Ending			<u>\$ 58,734,282</u>	

Morgan Hill Unified School District
Schedule of Changes in the District's Total OPEB Liability and Related Ratios
Year Ended June 30, 2024

	2024	2023	2022	2021	2020	2019	2018
Total OPEB Liability							
Service cost	\$ 213,360	\$ 296,247	\$ 1,740,261	\$ 1,626,960	\$ 1,952,843	\$ 1,818,977	\$ 1,984,946
Interest	364,893	236,672	1,289,273	1,277,155	1,497,955	1,469,226	1,320,152
Changes of benefit terms	(6,026,487)	-	(28,185,103)	-	(1,585,457)	-	-
Difference between expected and actual experience	(295,095)	-	(11,984,701)	-	(7,418,080)	-	-
Changes of assumptions	667,957	(1,813,213)	649,414	1,114,453	2,139,162	1,281,703	(3,591,558)
Benefit payments	(583,598)	(725,693)	(1,517,333)	(1,134,358)	(1,020,040)	(1,466,115)	(1,508,907)
Net change in total OPEB liability	(5,658,970)	(2,005,987)	(38,008,189)	2,884,210	(4,433,617)	3,103,791	(1,795,367)
Total OPEB Liability - Beginning	9,213,382	11,219,369	49,227,558	46,343,348	50,776,965	47,673,174	49,468,541
Total OPEB Liability - Ending	<u>\$ 3,554,412</u>	<u>\$ 9,213,382</u>	<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 Employee Payroll	N/A ¹	N/A ¹	N/A ¹	N/A ¹	N/A ¹	N/A ¹	N/A ¹
Total OPEB Liability as a Percentage of Covered Payroll	N/A ¹	N/A ¹	N/A ¹	N/A ¹	N/A ¹	N/A ¹	N/A ¹
Measurement Date	June 30, 2023	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017

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

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

Morgan Hill Unified School District
Schedule of the District's Proportionate Share of the Net Pension Liability
Year Ended June 30, 2024

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
CalSTRS										
Proportion of the net pension liability (asset)	0.0840%	0.0745%	0.0718%	0.0691%	0.0689%	0.0663%	0.0685%	0.0686%	0.0700%	0.0670%
Proportionate share of the net pension liability (asset)	\$ 63,991,578	\$ 51,759,666	\$ 32,673,574	\$ 66,921,307	\$ 62,212,546	\$ 60,948,651	\$ 63,317,270	\$ 55,524,384	\$ 47,100,020	\$ 39,151,313
State's proportionate share of the net pension liability (asset)	30,660,165	25,921,038	16,440,075	34,497,942	33,941,097	34,895,953	37,457,962	31,609,042	24,910,718	23,641,253
Total	<u>\$ 94,651,743</u>	<u>\$ 77,680,704</u>	<u>\$ 49,113,649</u>	<u>\$ 101,419,249</u>	<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>
Covered payroll	<u>\$ 51,818,277</u>	<u>\$ 43,237,128</u>	<u>\$ 39,065,152</u>	<u>\$ 37,674,591</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>
Proportionate share of the net pension liability as a percentage of its covered payroll	123.49%	119.71%	83.64%	177.63%	169.10%	167.52%	172.81%	161.56%	157.43%	130.07%
Plan fiduciary net position as a percentage of the total pension liability	81%	81%	87%	72%	73%	71%	69%	70%	74%	77%
Measurement Date	June 30, 2023	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
CalPERS										
Proportion of the net pension liability (asset)	0.1012%	0.0985%	0.0955%	0.0989%	0.1033%	0.1042%	0.1014%	0.0974%	0.0960%	0.0935%
Proportionate share of the net pension liability (asset)	\$ 36,623,995	\$ 33,907,444	\$ 19,423,686	\$ 30,340,605	\$ 30,101,834	\$ 27,780,195	\$ 24,211,698	\$ 19,240,492	\$ 14,155,717	\$ 10,616,563
Covered payroll	<u>\$ 17,539,696</u>	<u>\$ 15,112,519</u>	<u>\$ 13,704,507</u>	<u>\$ 14,243,629</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>\$ 9,812,471</u>
Proportionate share of the net pension liability (asset) as a percentage of its covered payroll	208.81%	224.37%	141.73%	213.01%	209.28%	202.12%	187.20%	164.62%	133.13%	108.19%
Plan fiduciary net position as a percentage of the total pension liability	81%	70%	81%	70%	70%	71%	72%	74%	79%	83%
Measurement Date	June 30, 2023	June 30, 2022	June 30, 2021	June 30, 2020	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, 2024

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
CalSTRS										
Contractually required contribution	\$ 10,915,755	\$ 9,897,291	\$ 7,315,722	\$ 6,309,022	\$ 6,442,355	\$ 5,989,025	\$ 5,245,292	\$ 4,599,667	\$ 3,688,822	\$ 2,909,037
Less contributions in relation to the contractually required contribution	<u>10,915,755</u>	<u>9,897,291</u>	<u>7,315,722</u>	<u>6,309,022</u>	<u>6,442,355</u>	<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>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	<u>\$ 57,150,550</u>	<u>\$ 51,818,277</u>	<u>\$ 43,237,128</u>	<u>\$ 39,065,152</u>	<u>\$ 37,674,591</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>
Contributions as a percentage of covered payroll	<u>19.10%</u>	<u>19.10%</u>	<u>16.92%</u>	<u>16.15%</u>	<u>17.10%</u>	<u>16.28%</u>	<u>14.42%</u>	<u>12.55%</u>	<u>10.73%</u>	<u>9.72%</u>
CalPERS										
Contractually required contribution	\$ 5,302,718	\$ 4,449,821	\$ 3,462,278	\$ 2,836,833	\$ 2,808,986	\$ 2,582,166	\$ 2,135,702	\$ 1,795,108	\$ 1,384,676	\$ 1,216,638
Less contributions in relation to the contractually required contribution	<u>5,302,718</u>	<u>4,449,821</u>	<u>3,462,278</u>	<u>2,836,833</u>	<u>2,808,986</u>	<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>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	<u>\$ 19,875,255</u>	<u>\$ 17,539,696</u>	<u>\$ 15,112,519</u>	<u>\$ 13,704,507</u>	<u>\$ 14,243,629</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>
Contributions as a percentage of covered payroll	<u>26.68%</u>	<u>25.37%</u>	<u>22.91%</u>	<u>20.70%</u>	<u>19.72%</u>	<u>17.95%</u>	<u>15.54%</u>	<u>13.88%</u>	<u>11.85%</u>	<u>11.44%</u>

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 4.13% at June 30, 2024 from 4.09% at June 30, 2023.

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 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, 2024

Morgan Hill Unified School District

Morgan Hill Unified School District
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2024

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Education			
Passed Through Santa Clara County Office of Education			
Special Education Cluster			
Special Education Grants to States	84.027	13379	\$ 1,792,337
Special Education Grants to States	84.027	15197	93,893
Special Education Preschool Grants	84.173	13430	34,875
Special Education Preschool Grants	84.173	13431	92
Total Special Education Cluster			<u>1,921,197</u>
Passed Through California Department of Education (CDE)			
Title I Grants to Local Educational Agencies	84.010	14329	915,638
Title I Grants to Local Educational Agencies	84.010	15438	178,351
Total			<u>1,093,989</u>
Migrant Education State Grant Program	84.011	14838	216,273
Migrant Education State Grant Program	84.011	10005	59,827
Total			<u>276,100</u>
English Language Acquisition State Grants	84.365	14346	203,631
English Language Acquisition State Grants	84.365	15146	49,451
Total			<u>253,082</u>
Career and Technical Education - Basic Grants to States- Rehabilitation	84.048	14891	152,164
Career and Technical Education - Basic Grants to States	84.048	14894	69,912
Total			<u>222,076</u>
COVID-19 - Elementary and Secondary School Emergency Relief - ESSER III	84.425U	15559	233,625
COVID-19 - Elementary and Secondary School Emergency Relief - ESSER III	84.425U	10155	242,273
COVID-19 - Elementary and Secondary School Emergency Relief - ESSER III	84.425U	15566	35,693
COVID-19 - Elementary and Secondary School Emergency Relief - ESSER III	84.425U	15621	203,809
Total			<u>715,400</u>
Supporting Effective Instruction State Grants	84.367	14341	208,729
Student Support and Academic Enrichment Program	84.424	15396	71,476
Total U.S. Department of Education			<u>4,762,049</u>
U.S. Department of Agriculture			
Passed Through California Department of Education			
Child Nutrition Cluster			
National School Lunch Program	10.555	15708	47,810
National School Lunch Program	10.555	13523	1,201,356
National School Lunch Program	10.555	15637	400,294
School Breakfast Program	10.553	13526	447,354
National School Lunch Program - Commodity	10.555	15655	508,282
Total Child Nutrition Cluster			<u>2,605,096</u>
Child and Adult Care Food Program	10.558	13393	136,205
Child Nutrition Discretionary Grants Limited Availability	10.579	14906	46,800
Total U.S. Department of Agriculture			<u>2,788,101</u>
Total Federal Financial Assistance			<u>\$ 7,550,150</u>

Morgan Hill Unified School District
Schedule of Average Daily Attendance
Year Ended June 30, 2024

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	2,250.14	2,259.35
Fourth through sixth	1,571.80	1,573.11
Seventh and eighth	1,014.67	1,015.12
Ninth through twelfth	2,516.82	2,477.15
Total Regular ADA	7,353.43	7,324.73
Extended Year Special Education		
Transitional kindergarten through third	1.57	1.57
Fourth through sixth	0.26	0.26
Seventh and eighth	0.12	0.12
Ninth through twelfth	0.64	0.64
Total Extended Year Special Education	2.59	2.59
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.60	0.80
Fourth through sixth	0.76	2.63
Seventh and eighth	0.71	-
Ninth through twelfth	4.46	5.20
Total Special Education, Nonpublic, Nonsectarian Schools	6.53	8.63
Total ADA	7,362.55	7,335.95

Morgan Hill Unified School District

Schedule of Instructional Time

Year Ended June 30, 2024

Grade Level	1986-1987 Minutes Requirement	2023-2024 Actual Minutes	Number of Actual Days		Status
			Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	53,640	180	N/A	Complied
Grades 1 - 3					
Grade 1	50,400	54,300	180	N/A	Complied
Grade 2	50,400	54,300	180	N/A	Complied
Grade 3	50,400	54,300	180	N/A	Complied
Grades 4 - 6					
Grade 4	54,000	56,370	180	N/A	Complied
Grade 5	54,000	56,370	180	N/A	Complied
Grade 6	54,000	58,664	180	N/A	Complied
Grades 7 - 8					
Grade 7	54,000	58,664	180	N/A	Complied
Grade 8	54,000	58,664	180	N/A	Complied
Grades 9 - 12					
Grade 9	64,800	64,810	180	N/A	Complied
Grade 10	64,800	64,810	180	N/A	Complied
Grade 11	64,800	64,810	180	N/A	Complied
Grade 12	64,800	64,810	180	N/A	Complied

Morgan Hill Unified School District
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements
Year Ended June 30, 2024

	General Fund	Special Reserve Fund for Other Than Capital Outlay Projects	Special Reserve Fund for Postemployment Benefits
Fund Balance			
Balance, June 30, 2024, Unaudited Actuals	\$ 54,386,584	\$ 4,046,403	\$ 301,295
As a result of the implementation of GASB Statement No. 54, Fund 17 and Fund 20 are combined into the financial statement	<u>4,347,698</u>	<u>(4,046,403)</u>	<u>(301,295)</u>
Balance, June 30, 2024, Audited Financial Statements	<u><u>\$ 58,734,282</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

Morgan Hill Unified School District
Schedule of Financial Trends and Analysis
Year Ended June 30, 2024

	(Budget) 2025 ¹	2024	2023	2022
General Fund				
Revenues	\$ 127,533,115	\$ 135,417,985	\$ 139,386,314	\$ 110,015,848
Other sources	-	413,781	114,675	-
Total Revenues and Other Sources	127,533,115	135,831,766	139,500,989	110,015,848
Expenditures	140,871,264	141,146,308	127,350,748	105,146,732
Other uses and transfers out	327,794	755,544	417,426	341,491
Total Expenditures and Other Uses	141,199,058	141,901,852	127,768,174	105,488,223
Increase/(Decrease) in Fund Balance	(13,665,943)	(6,070,086)	11,732,815	4,527,625
Ending Fund Balance	\$ 45,068,339	\$ 58,734,282	\$ 64,804,368	\$ 53,071,553
Available Reserves ²	\$ 30,700,305	\$ 45,567,508	\$ 44,485,138	\$ 39,194,900
Available Reserves as a Percentage of Total Outgo	21.74%	32.11%	34.82%	37.16%
Long-Term Liabilities ³	\$ 187,325,818	\$ 192,210,716	\$ 196,512,594	\$ 129,325,024
K-12 Average Daily Attendance at P-2	7,312	7,363	7,351	7,337

The General Fund balance has increased by \$5,662,729 over the past two years. The fiscal year 2024-2025 budget projects a decrease of \$13,665,943 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 2022 and 2023, operating deficit in 2024 and anticipates incurring an operating deficit during the 2024-2025 fiscal year. Total long-term liabilities have increased by \$62,885,692 over the past two years.

Average daily attendance has increased by 26 over the past two years. An additional decrease of 51 ADA is anticipated in fiscal year 2024-2025.

¹ Financial information for 2025, 2024, and 2023 are included for analytical purposes only and has not been subjected to audit.

² Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained with the General Fund, Special Reserve Non-Capital Fund and the Retiree Benefit Special Reserve Fund.

³ Long-term liabilities amount excluded pension and OPEB liabilities.

Morgan Hill Unified School District
Schedule of Charter Schools
Year Ended June 30, 2024

<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, 2024

	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
Assets								
Cash and cash equivalents	\$ 1,044,999	\$ 554,342	\$ 211,316	\$ 2,663,088	\$ 391,644	\$ 2,634,702	\$ 8,434,767	\$ 15,934,858
Receivables	-	20,140	56,945	612,587	3,831	23,473	52,589	769,565
Total assets	\$ 1,044,999	\$ 574,482	\$ 268,261	\$ 3,275,675	\$ 395,475	\$ 2,658,175	\$ 8,487,356	\$ 16,704,423
Liabilities, Deferred Inflows of Resources, and Fund Balances								
Liabilities								
Accounts payable	\$ -	\$ 3,179	\$ 137,740	\$ 68,947	\$ -	\$ 155	\$ -	\$ 210,021
Due to other funds	-	44,463	15,893	155,271	-	-	-	215,627
Unearned revenue	-	-	50,330	-	-	-	-	50,330
Total liabilities	-	47,642	203,963	224,218	-	155	-	475,978
Fund Balances								
Nonspendable	-	5,000	-	1,000	-	-	-	6,000
Restricted	1,044,999	158,448	64,298	3,050,457	-	2,658,020	8,487,356	15,463,578
Committed	-	363,392	-	-	395,475	-	-	758,867
Total fund balances	1,044,999	526,840	64,298	3,051,457	395,475	2,658,020	8,487,356	16,228,445
Total liabilities, deferred inflows of resources, and fund balances	\$ 1,044,999	\$ 574,482	\$ 268,261	\$ 3,275,675	\$ 395,475	\$ 2,658,175	\$ 8,487,356	\$ 16,704,423

Morgan Hill Unified School District
Combining Statement of Revenues, Expenditure, and Changes in Fund Balances – Non-Major Governmental Funds
Year Ended June 30, 2024

	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
Revenues								
Federal sources	\$ -	\$ -	\$ -	\$ 2,788,100	\$ -	\$ -	\$ -	\$ 2,788,100
Other State sources	-	655,371	437,500	2,406,027	-	-	28,849	3,527,747
Other local sources	1,395,232	95,468	72,671	339,301	18,813	720,734	8,398,205	11,040,424
Total revenues	1,395,232	750,839	510,171	5,533,428	18,813	720,734	8,427,054	17,356,271
Expenditures								
Current								
Instruction	-	335,405	429,979	-	-	-	-	765,384
Instruction-related activities								
Supervision of instruction	-	49,924	-	-	-	-	-	49,924
School site administration	-	533,591	-	-	-	-	-	533,591
Pupil services								
Food services	-	-	-	4,496,570	-	-	-	4,496,570
Administration								
All other administration	-	44,463	15,894	121,360	-	-	-	181,717
Plant services	-	417	-	-	-	10,341	-	10,758
Ancillary services	1,369,787	-	-	-	-	-	-	1,369,787
Capital Outlay	-	-	-	-	-	417,969	-	417,969
Debt service								
Principal	-	-	-	-	-	-	3,550,000	3,550,000
Interest and other	-	-	-	-	-	-	7,133,552	7,133,552
Total expenditures	1,369,787	963,800	445,873	4,617,930	-	428,310	10,683,552	18,509,252
Excess (Deficiency) of Revenues Over Expenditures	25,445	(212,961)	64,298	915,498	18,813	292,424	(2,256,498)	(1,152,981)
Fund Balance - Beginning, as restated	1,019,554	739,801	-	2,135,959	376,662	2,365,596	10,743,854	17,381,426
Fund Balance - Ending	\$ 1,044,999	\$ 526,840	\$ 64,298	\$ 3,051,457	\$ 395,475	\$ 2,658,020	\$ 8,487,356	\$ 16,228,445

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, 2024. 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 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.

SEFA Reconciliation

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts consist primarily of federal interest subsidies that are not to be reported as federal financial assistance.

Total Federal Revenues reported on the financial statements	\$ 8,321,446
Federal Interest Rate Subsidy	<u>(771,296)</u>
Total federal financial assistance	<u><u>\$ 7,550,150</u></u>

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.



Other information
June 30, 2024

Morgan Hill Unified School District

Organization

The District was established in 1966 and consists of an area comprising approximately 300 square miles. The District operates six elementary schools, two middle schools, one TK-8, one K-8, 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	2026
Veronica Andrade	Vice President	2028
Sarah Northrup Gadus	Board Clerk	2026
Nancy Altman	Member	2026
Pamela Gardiner	Member	2026
Jennifer Marquez	Member	2028
Rebecca Munson	Member	2028

Administration

Dr. Carmen Garcia	Superintendent
Kolvira Chheng	Assistant Superintendent of Business Services
Diana Tavares	Assistant Superintendent of Human Resources
Diana Jimenez	Assistant Superintendent of Educational Services



Independent Auditor's Reports
June 30, 2024

Morgan Hill Unified School District



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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*), 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, 2024, 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 31, 2025.

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 District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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

Menlo Park, California
January 31, 2025



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

Opinion on Each Major Federal Program

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, 2024. 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.

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 major federal programs for the year ended June 30, 2024.

Basis for Opinion on Each Major Federal Program

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 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.

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.

Report on Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the 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.

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 requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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

Menlo Park, California
January 31, 2025



Independent Auditor's Report on State Compliance; Report on Internal Control Over Compliance

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

Report on Compliance

Qualified and Unmodified Opinions on State Compliance

We have audited Morgan Hill Unified School District's (District) compliance with the requirements specified in the *2023-2024 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, 2024.

Qualified Opinion on the School Accountability Report Card and Educator Effectiveness

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 are applicable to the laws and regulations of the state programs noted in the table below for the year ended June 30, 2024.

Unmodified Opinion on Each of the Other Programs

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, 2024, except as described in the accompanying Schedule of Findings and Questioned Costs.

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 *2023-2024 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.

Matters Giving Rise to Qualified Opinion on School Accountability Report Card

As described in the accompanying schedule of findings and questioned costs as finding 2024-001 and 2024-002, the District did not comply with the reporting requirements regarding School Accountability Report Card and Educator Effectiveness.

Compliance with such requirements is necessary, in our opinion, for the District to comply with the 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 *2023-2024 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 *2023-2024 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 *2023-2024 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:

	Procedures Performed
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	N/A
Continuation Education	Yes
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	N/A
GANN Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	N/A
Middle or Early College High Schools	N/A
K-3 Grade Span Adjustment	Yes
Apprenticeship: Related and Supplemental Instruction	N/A
Comprehensive School Safety Plan	Yes
District of Choice	N/A
Home to School Transportation Reimbursement	Yes
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
Proposition 28 Arts and Music in Schools	Yes
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	Yes
Educator Effectiveness	Yes
Expanded Learning Opportunities Grant (ELO-G)	Yes
Career Technical Education Incentive Grant	Yes
CHARTER SCHOOLS	
Attendance	N/A
Mode of Instruction	N/A
Nonclassroom-Based Instruction/Independent Study	N/A
Determination of Funding for Nonclassroom-Based Instruction	N/A
Annual Instructional Minutes - Classroom Based	N/A
Charter School Facility Grant Program	N/A

The term “Not Applicable” is used above to mean either the District did not offer the program during the current fiscal year, the District did not participate in the program during the current fiscal year, or the program applies to a different type of local education agency.

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 and described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the 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 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 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 by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2024-001 and 2024-002. 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 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 *2023-2024 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.



Menlo Park, California
January 31, 2025

Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP. Unmodified

Internal control over financial reporting:

Material weaknesses identified No

Significant deficiencies identified not considered to be material weaknesses None Reported

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major program:

Material weaknesses identified No

Significant deficiencies identified not considered to be material weaknesses None Reported

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

Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516(a): No

Identification of major programs:

<u>Name of Federal Program or Cluster</u>	<u>Federal Assistance Listing</u>
Child Nutrition Cluster	10.553, 10.555
Special Education Cluster	84.027, 84.173
Dollar threshold used to distinguish between type A and type B programs:	\$ 750,000
Auditee qualified as low-risk auditee?	No

State Compliance

Internal control over state compliance programs

Material weaknesses identified Yes

Significant deficiencies identified not considered to be material weaknesses None Reported

Unmodified for all programs except for the following programs which were qualified:

<u>Name of Program</u>
School Accountability Report Card
Educator Effectiveness

None reported.

None reported.

The following findings represent instances of noncompliance and material weaknesses including questioned costs that are required to be reported by the 2023-2024 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting. The findings have been coded as follows:

Five Digit Code	AB 3627 Finding Type
40000	State Compliance
72000	School Accountability Report Card

2024-001 Code 40000 / 72000 - School Accountability Report Card

Criteria

EDC §17002 and EDC §33126(b)(8) requires that an assessment of school facilities be included in the annual School Accountability Report Card (SARC). School Districts use a “Facility Inspection Tool (FIT)” or equivalent, as the documented basis of the conditions reported in the facilities section of the SARC.

Condition

The District could not provide the correct FITs, or equivalent, for us to compare with the information about facilities published in the SARCs.

Questioned Costs

There is no questioned cost associated with this condition.

Context

We selected a sample of five schools and the condition applies to four of those schools.

Effect

Information contained in the SARC school facilities may be incomplete or inaccurate.

Cause

The District could not provide correct Williams to support its SARC.

Recommendation

We recommend that the District appoint someone to be accountable for compliance in this area.

Identification as a Repeat Finding

This was not a prior year finding.

Views of Responsible Officials/Corrective Action Plan

The District has included this area of gap in staff assignment and will address the corrective action required.

2024-002 Code 40000 – Educator Effectiveness

Criteria

EDC §41480(d)(2) requires that as a condition of receiving funds the District shall report detailed expenditure information to the CDE on or before September 30, 2023.

Condition

The District did not report detailed expenditure information by the CDE deadline of September 30, 2023.

Questioned Costs

The questioned cost is equal to the original allocation amount of \$1,700,408 received in FY 2022.

Context

We reviewed the CDE submission website at <https://www2.cde.ca.gov/eefannual/> and obtained a printed copy of the reporting details from the District.

Effect

Information provided to the CDE through the detailed expenditure report was not received by the deadline.

Cause

The District did not file the detailed expenditure report by the September 30, 2023 deadline.

Recommendation

We recommend that the District return the funds for Educator Effectiveness.

Identification as a Repeat Finding

This was not a prior year finding.

Views of Responsible Officials/Corrective Action Plan

The District will implement additional review procedures ensuring that the filing is performed timely.

None reported.