

Financial Statements
June 30, 2025

Morgan Hill Unified School District

Independent Auditor's Report.....	1
Management's Discussion and Analysis	5
Government Wide Financial Statements	
Statement of Activities.....	15
Government Fund Financial Statements	
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	17
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	19
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	20
Notes to Financial Statements	22
Required Supplementary Information	
Budgetary Comparison Schedule – General Fund	56
Schedule of Changes in the District's Total OPEB Liability and Related Ratios	57
Schedule of the District's Proportionate Share of the Net Pension Liability	58
Schedule of the District's Contributions for Pension	59
Note to Required Supplementary Information.....	60
Supplementary Information	
Schedule of Expenditures of Federal Awards	61
Schedule of Average Daily Attendance	62
Schedule of Instructional Time	63
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements	64
Schedule of Financial Trends and Analysis	65
Schedule of Charter Schools	66
Combining Balance Sheet – Non-Major Governmental Funds	67
Combining Statement of Revenues, Expenditure, and Changes in Fund Balances – Non-Major Governmental Funds.....	68
Notes to Supplementary Information.....	69
Other Information	
Independent Auditor's Reports	
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 <i>Government Auditing Standards</i>	72
Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance Required by the Uniform Guidance	74
Independent Auditor's Report on State Compliance and on Internal Control Over Compliance	77
Schedule of Findings and Questioned Costs	
Summary of Auditor's Results.....	81
Financial Statement Findings	82

Federal Awards Findings and Questioned Costs..... 83

State Compliance Findings and Questioned Costs..... 84

Summary Schedule of Prior Audit Findings..... 85



Independent Auditor's Report

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

Report on the 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 (the District), as of and for the year ended June 30, 2025, 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 Morgan Hill Unified School District, as of June 30, 2025, and the respective changes in financial position, and, where applicable, cash flows 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.

Adoption of New Accounting Standard

As discussed in Note 16 to the financial statements, the District has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 101, *Compensated Absences* for the year ended June 30, 2025. Accordingly, a restatement has been made to the governmental activities and net position as of July 1, 2024 to restate beginning net position. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of changes in the District's total OPEB liability and related ratios, schedule of the District's proportionate share of the net pension liability - CalSTRS, schedule of the District's proportionate share of the net pension liability - CalPERS, schedule of the District's contributions - CalSTRS, and schedule of the District's contributions - CalPERS 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 Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, combining non-major governmental fund financial statements, and other supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the Schedule of Expenditures of Federal Awards, combining non-major governmental fund financial statements, and other supplementary information listed in the table of contents are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other 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 December 15, 2025 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

Menlo Park, California
December 15, 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, 2025. 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

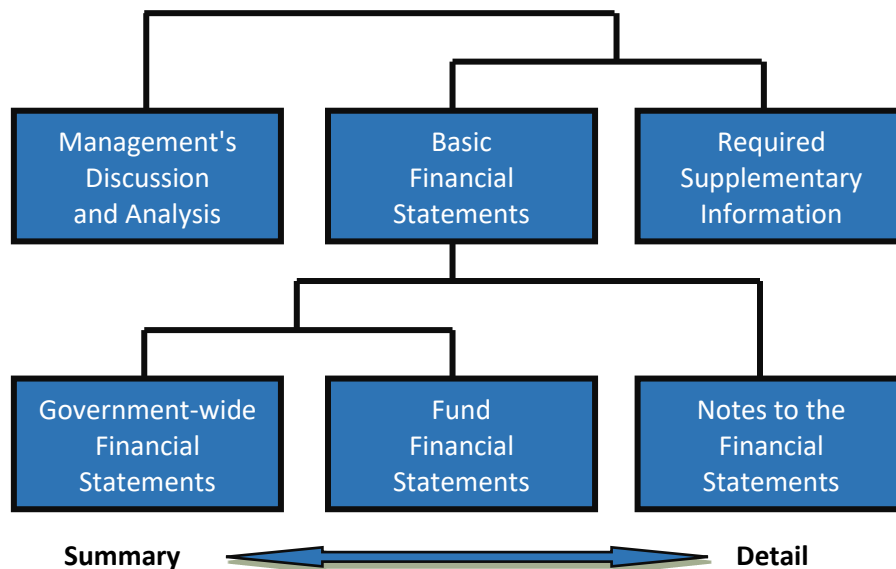
Financial and Program Highlights

- The District's current and other assets decreased by \$12,999,234 due to bond proceeds being spent.
- Capital assets increased by \$3,196,232 mainly due to current year's capital asset additions.
- The District's deferred outflows of resources decreased by \$2,201,135 mainly due to changes in the amounts amortized for pension and OPEB liabilities.
- The District's long-term obligations decreased by \$11,247,821 due to the investments located with CalSTRS and CalPERS which decreased the fiduciary net position effectively increasing.
- The District's deferred inflows of resources decreased by \$1,208,252 due to changes in the deferrals related to pension and OPEB discussed above.
- The District's Net Position decreased by \$1,129,220 mainly due to a decline in interest and investment earnings.
- The District's budgeted a decrease of \$18,363,574 in general fund balance but fund balance increased by \$412,348.

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 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

The *Statement of Net Position* and the *Statement of Activities* report information about the District as a whole and about its activities. These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the District using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net position and changes in net position. Net position is the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources, which is one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position will serve as a useful indicator of whether the financial position of the District is improving or deteriorating. Other factors to consider are changes in the District's property tax base and the condition of the District's facilities.

The relationship between revenues and expenses is the District's operating results. Since the governing board's responsibility is to provide services to our students and not to generate profit as commercial entities do, one must consider other factors when evaluating the overall health of the District. The quality of the education and the safety of our schools will likely be an important component in this evaluation.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds - not the District as a whole. Some funds are required to be established by State law and by bond covenants. However, management establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money that it receives from the U.S. Department of Education.

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 financial 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, 2025, the District's net position decreased by \$1,129,220 to \$194,812,412. The District participates in both CalPERS and CalSTRS and therefore the aggregate net pension liability as of year-end was reflected on the financial statements (see Note 13 in the Annual Financial Report). The unrestricted net position (deficit) increased to (\$30,799,125) from (\$32,935,027). The increase in the overall net position was related to decreases in the District's pension liabilities.

(Table 1)
Comparative Condensed Statement of Net Position

	Governmental Activities		Change	Percentage Change
	2025	2024*		
Assets				
Current and other assets	\$ 141,982,033	\$ 154,981,267	\$ (12,999,234)	-8%
Capital assets	325,255,040	322,058,808	3,196,232	1%
Total assets	467,237,073	477,040,075	(9,803,002)	-2%
Deferred outflows of resources	40,014,319	42,215,454	(2,201,135)	-5%
Liabilities				
Current liabilities	12,470,728	10,541,168	1,929,560	18%
Long-term liabilities	285,132,880	296,380,701	(11,247,821)	-4%
Total liabilities	297,603,608	306,921,869	(9,318,261)	-3%
Deferred inflows of resources	14,835,372	16,043,624	(1,208,252)	-8%
Net Position				
Net investment in capital assets	179,890,864	184,233,516	(4,342,652)	-2%
Restricted	45,720,673	44,991,547	729,126	2%
Unrestricted	(30,799,125)	(32,935,027)	2,135,902	-6%
Total net position	\$ 194,812,412	\$ 196,290,036	\$ (1,477,624)	-1%

* Amounts were not restated for the effects of the implementation of GASB Statement No. 101.

The results of this year's operations for the District as a whole are reported in the *Statement of Activities*. Table 2 takes the information from the Statement, rounds off the numbers, and rearranges them slightly so you can see our total revenues for the year.

(Table 2)
Comparative Condensed Statement of Changes in Net Position

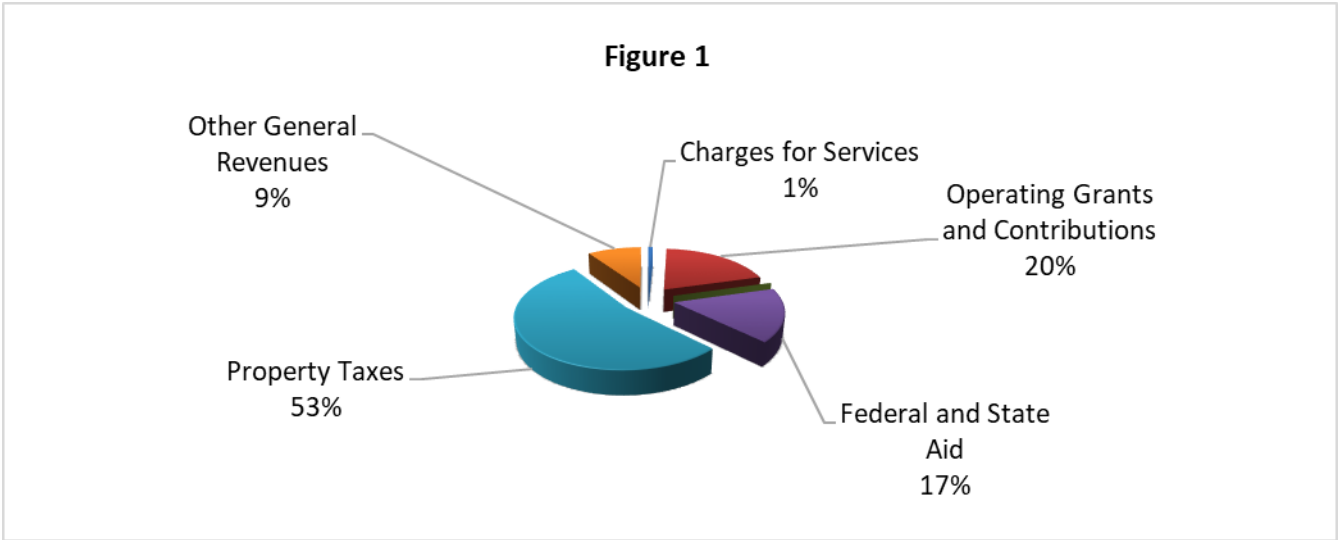
	Governmental Activities			Percentage
	2025	2024*	Change	Change
Revenues				
Program revenues				
Charges for services	\$ 1,299,768	\$ 854,425	\$ 445,343	52%
Operating grants and contributions	31,892,998	32,996,324	(1,103,326)	-3%
General revenues				
Federal and State aid not restricted	27,048,063	28,930,125	(1,882,062)	-7%
Property taxes	85,945,904	84,526,127	1,419,777	2%
Other general revenues	15,279,215	22,412,078	(7,132,863)	-32%
Total revenues	<u>161,465,948</u>	<u>169,719,079</u>	<u>(8,253,131)</u>	<u>-5%</u>
Expenses				
Instruction-related	95,302,937	102,544,037	(7,241,100)	-7%
Pupil services	20,941,372	20,638,321	303,051	1%
Administration	8,438,806	7,863,999	574,807	7%
Plant services	19,120,409	15,023,338	4,097,071	27%
All other services	18,791,644	15,377,972	3,413,672	22%
Total expenses	<u>162,595,168</u>	<u>161,447,667</u>	<u>1,147,501</u>	<u>1%</u>
Change in net position	<u>\$ (1,129,220)</u>	<u>\$ 8,271,412</u>	<u>(9,400,632)</u>	<u>-114%</u>

* Amounts were not restated for the effects of the implementation of GASB Statement No. 101.

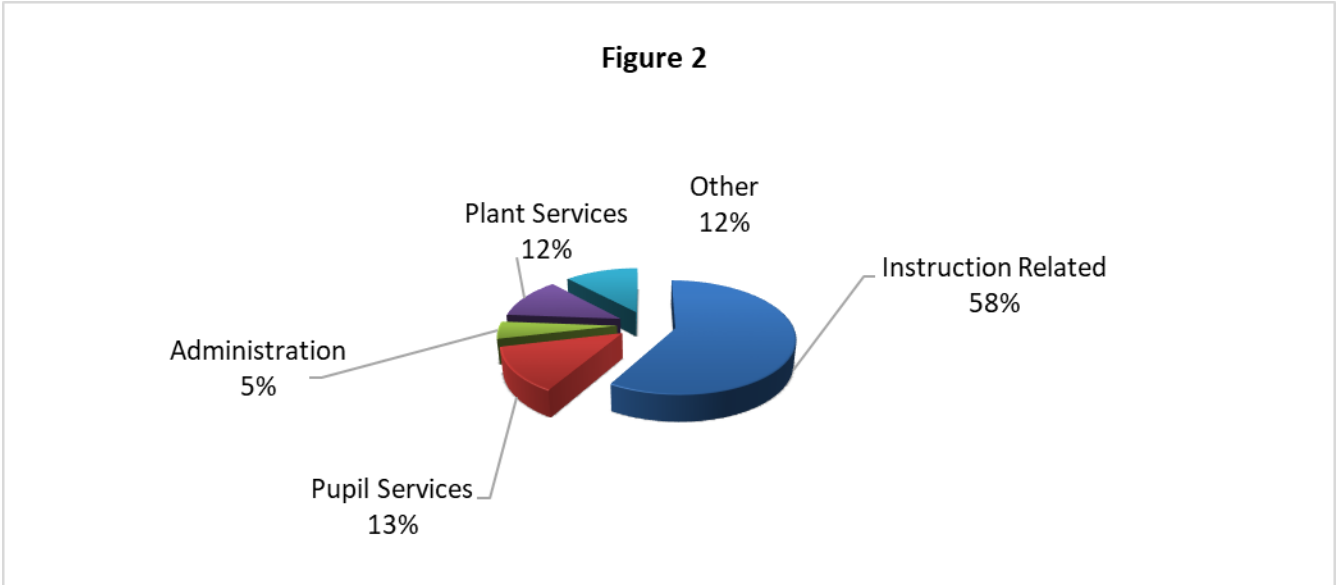
Governmental Activities

As reported in the Statement of Activities, the cost of all the District's governmental activities this year was \$162,595,168. The amount that our local taxpayers financed for these activities through property taxes was \$85,945,904 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 2024-2025 Fiscal Year



Expenses for the 2024-2025 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 \$132,566,050, a decrease of \$15,011,503 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 \$3,718,332 and was the result of spending down carryovers of COVID grants. The Building fund reported a decrease in fund balance for \$12,279,051 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 \$54,798,933 (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 \$42,380,441.

Per CALPADS census date, enrollment at the beginning of the 2025 fiscal year was 7,762 which is a slight increase 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 2024-2025 fiscal year, the District had an investment in capital assets for \$453,501,330 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 \$325,255,040 at June 30, 2025 which is an increase of \$3.2 million from the previous year primarily due to completed bond projects (see Note 5 in the Financial Statements).

(Table 3)

	Governmental Activities	
	2025	2024
Land and construction in progress	\$ 34,550,912	\$ 66,908,329
Buildings and improvements	417,235,016	374,370,226
Equipment	1,715,402	1,639,136
Total	<u>\$ 453,501,330</u>	<u>\$ 442,917,691</u>

Long-Term Liabilities

As of June 30, 2025, the District had \$285,132,880 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	
	2025	2024*
Long-Term Liabilities		
General obligation bonds	\$ 158,425,000	\$ 162,395,000
Certificates of participation	13,505,000	13,505,000
Unamortized premiums/(discounts)	15,234,128	16,040,188
Compensated absences	666,636	270,528
Total OPEB liability	3,451,833	3,554,412
Aggregate net pension liability	93,850,283	100,615,573
Total	<u>\$ 285,132,880</u>	<u>\$ 296,380,701</u>

* Amounts were not restated for the effects of the implementation of GASB Statement No. 101.

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 Doris Lopez, 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, 2025

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 131,772,597
Receivables	10,190,650
Prepaid expense	18,786
Capital assets not depreciated	34,550,912
Capital assets, net of accumulated depreciation	290,704,128
Total assets	467,237,073
Deferred Outflows of Resources	
Deferred charge on refunding	646,074
Deferred outflows of resources related to OPEB	2,491,073
Deferred outflows of resources related to pensions	36,877,172
Total deferred outflows of resources	40,014,319
Liabilities	
Accounts payable	8,667,262
Interest payable	3,054,745
Unearned revenue	748,721
Long-term liabilities	
Long-term liabilities other than OPEB and pension due within one year	2,825,394
Long-term liabilities other than OPEB and due in more than one year	185,005,370
Total other postemployment benefits (OPEB) liability due in more than one year	3,451,833
Aggregate net pension liabilities	93,850,283
Total liabilities	297,603,608
Deferred Inflows of Resources	
Deferred inflows of resources related to OPEB	7,692,370
Deferred inflows of resources related to pensions	7,143,002
Total deferred inflows of resources	14,835,372
Net Position	
Net investment in capital assets	179,890,864
Restricted for	
Debt service	2,711,815
Capital projects	25,693,168
Educational programs	14,176,698
Food service	3,138,992
Unrestricted	(30,799,125)
Total net position	\$ 194,812,412

Morgan Hill Unified School District
Statement of Activities
Year Ended June 30, 2025

Functions/Programs	Expenses	Program Revenues		Net (Expenses)
		Charges for Services and Sales	Operating Grants and Contributions	Revenues and Changes in Net Position
				Governmental Activities
Governmental Activities				
Instruction	\$ 81,217,691	\$ 55,063	\$ 16,004,338	\$ (65,158,290)
Instruction-related activities				
Supervision of instruction	3,065,998	1,548	648,886	(2,415,564)
Instructional library, media, and technology	832,512	-	58,213	(774,299)
School site administration	10,186,736	1,404	567,294	(9,618,038)
Pupil services				
Home-to-school transportation	4,278,544	-	867	(4,277,677)
Food services	5,029,983	2,033	4,683,737	(344,213)
All other pupil services	11,632,845	50,634	4,923,090	(6,659,121)
Administration				
Data processing	1,621,937	-	-	(1,621,937)
All other administration	6,816,869	3,394	836,748	(5,976,727)
Plant services	19,120,409	18,634	49,498	(19,052,277)
Ancillary services	2,089,155	-	1,390,982	(698,173)
Community services	44,811	-	-	(44,811)
Interest on long-term liabilities	7,541,363	-	-	(7,541,363)
Other outgo	9,116,315	1,167,058	2,729,345	(5,219,912)
Total governmental activities	<u>\$ 162,595,168</u>	<u>\$ 1,299,768</u>	<u>\$ 31,892,998</u>	<u>(129,402,402)</u>
General Revenues and Subventions				
Property taxes, levied for general purposes				72,838,741
Property taxes, levied for debt service				8,469,868
Taxes levied for other specific purposes				4,637,295
Federal and State aid not restricted to specific purposes				27,048,063
Interest and investment earnings				4,506,688
Interagency revenues				137,629
Miscellaneous				10,634,898
Total general revenues and subventions				<u>128,273,182</u>
Change in Net Position				<u>(1,129,220)</u>
Net Position - Beginning, as previously reported				196,290,036
Adjustment (Note 16)				<u>(348,404)</u>
Net Position - Beginning, as restated				<u>195,941,632</u>
Net Position - Ending				<u><u>\$ 194,812,412</u></u>

Morgan Hill Unified School District
Balance Sheet – Governmental Funds
June 30, 2025

	General Fund	Building Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 52,857,258	\$ 43,112,829	\$ 22,020,239	\$ 13,782,271	\$ 131,772,597
Receivables	8,746,823	303,868	191,325	948,634	10,190,650
Due from other funds	294,369	-	-	-	294,369
Prepaid expenditures	18,786	-	-	-	18,786
Total assets	\$ 61,917,236	\$ 43,416,697	\$ 22,211,564	\$ 14,730,905	\$ 142,276,402
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 6,152,554	\$ 2,240,792	\$ 95,166	\$ 178,750	\$ 8,667,262
Due to other funds	-	22,027	74,478	197,864	294,369
Unearned revenue	748,721	-	-	-	748,721
Total liabilities	6,901,275	2,262,819	169,644	376,614	9,710,352
Fund Balances					
Nonspendable	33,286	-	-	6,000	39,286
Restricted	12,385,207	41,153,878	22,041,920	14,348,291	89,929,296
Assigned	217,027	-	-	-	217,027
Unassigned	42,380,441	-	-	-	42,380,441
Total fund balances	55,015,961	41,153,878	22,041,920	14,354,291	132,566,050
Total liabilities and fund balances	\$ 61,917,236	\$ 43,416,697	\$ 22,211,564	\$ 14,730,905	\$ 142,276,402

Morgan Hill Unified School District
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2025

Total Fund Balance - Governmental Funds \$ 132,566,050

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	\$ 453,501,330
Accumulated depreciation and amortization is	<u>(128,246,290)</u>

Net capital assets	325,255,040
--------------------	-------------

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. (3,054,745)

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)	646,074
Other postemployment benefits (OPEB)	2,491,073
Net pension liability	<u>36,877,172</u>

Total deferred outflows of resources	40,014,319
--------------------------------------	------------

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	(7,692,370)
Net pension obligation	<u>(7,143,002)</u>

Total deferred inflows of resources	(14,835,372)
-------------------------------------	--------------

Morgan Hill Unified School District
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2025

Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.	\$ (93,850,283)
The District's OPEB liability is not due and payable in the current period, and is not reported as a liability in the funds.	(3,451,833)
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	\$ (173,686,801)
Certificates of participation, including unamortized discounts	(13,477,327)
Compensated absences	<u>(666,636)</u>
Total long-term liabilities	<u>(187,830,764)</u>
Total net position - governmental activities	<u><u>\$ 194,812,412</u></u>

Morgan Hill Unified School District
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
Year Ended June 30, 2025

	General Fund	Building Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total Governmental Funds
Revenues					
Local control funding formula (LCFF)	\$ 95,991,553	\$ -	\$ -	\$ -	\$ 95,991,553
Federal sources	3,867,824	707,079	-	2,217,557	6,792,460
Other State sources	19,329,447	-	-	3,703,127	23,032,574
Other local sources	12,740,154	2,416,372	3,455,286	11,059,419	29,671,231
Total revenues	131,928,978	3,123,451	3,455,286	16,980,103	155,487,818
Expenditures					
Current					
Instruction	81,652,736	-	-	774,853	82,427,589
Instruction-related activities					
Supervision of instruction	2,848,149	-	-	202,585	3,050,734
Instructional library, media, and technology	825,360	-	-	-	825,360
School site administration	9,944,818	-	-	179,575	10,124,393
Pupil services					
Home-to-school transportation	4,443,878	-	-	-	4,443,878
Food services	486,078	-	-	4,607,535	5,093,613
All other pupil services	12,376,336	-	-	-	12,376,336
Administration					
Data processing	1,585,106	-	-	-	1,585,106
All other administration	6,468,060	-	-	195,313	6,663,373
Plant services	13,233,258	1,206,269	116,365	176,055	14,731,947
Ancillary services	680,435	-	-	1,312,958	1,993,393
Community services	43,320	-	-	-	43,320
Other outgo	195,000	-	-	-	195,000
Capital outlay	526,450	13,650,172	404,419	-	14,581,041
Debt service					
Principal	-	-	-	3,970,000	3,970,000
Interest and other	-	958,855	-	7,435,383	8,394,238
Total expenditures	135,308,984	15,815,296	520,784	18,854,257	170,499,321
Excess (Deficiency) of Revenues Over Expenditures	(3,380,006)	(12,691,845)	2,934,502	(1,874,154)	(15,011,503)
Other Financing Sources (Uses)					
Transfers in	174,478	412,794	-	-	587,272
Transfers out	(512,794)	-	(74,478)	-	(587,272)
Net Financing Sources (Uses)	(338,316)	412,794	(74,478)	-	-
Net Change in Fund Balances	(3,718,322)	(12,279,051)	2,860,024	(1,874,154)	(15,011,503)
Fund Balance - Beginning	58,734,283	53,432,929	19,181,896	16,228,445	147,577,553
Fund Balance - Ending	\$ 55,015,961	\$ 41,153,878	\$ 22,041,920	\$ 14,354,291	\$ 132,566,050

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, 2025

Total Net Change in Fund Balances - Governmental Funds \$ (15,011,503)

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	\$ (11,145,645)
Capital outlay	<u>14,581,041</u>

Net expense adjustment	3,435,396
------------------------	-----------

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	3,970,000
---	-----------

Loss on disposal of capital assets is reported in the government-wide Statement of Net Position, but is not recorded in the governmental funds.	(239,164)
---	-----------

In the Statement of Activities, certain operating expenses, such as compensated absences 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 compensated absences earned and used.	(47,703)
--	----------

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/inflows of resources and net pension liability during the year.	2,773,613
--	-----------

In the governmental funds, OPEB costs are based on benefit payments made for OPEB plans during the year. However, in the Statement of Activities, OPEB expense is the net effect of all changes in the deferred outflows/inflows, of resources and net OPEB liability during the year.	3,137,266
--	-----------

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, 2025

Governmental funds report the effect of premiums, discounts, and the deferred charge on a refunding when the debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.

Premium amortization	\$ 819,900
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.

46,815

Change in net position of governmental activities	<u><u>\$ (1,129,220)</u></u>
---	------------------------------

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 six elementary, one TK-8, one K-8, two middle, two high schools, a continuation high school and a community adult school.

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 by 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 and amortization of capital 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 and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. 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 Balances 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 financial statements 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 government-wide financial 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 for purposes of the Statement of Cash Flows.

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.

The District's investment in the county treasury is measured at fair value on a recurring basis, which is determined by the fair value per share of the underlying portfolio determined by the program sponsor. Positions in this investment pool are not required to be categorized within the fair value hierarchy.

Capital Assets, Depreciation, and Amortization

Capital assets are long-lived assets of the District. The District maintains a capitalization threshold of \$10,000. Federally funded assets also maintain a capitalization threshold of \$10,000. 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.

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. 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. Donated capital assets are capitalized at acquisition value on the date donated.

Capital assets in the proprietary funds are capitalized in the fund in which they are utilized. The valuation basis for proprietary fund capital assets is the same as those used for the capital assets of governmental funds.

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/infrastructure, 5 to 50 years; equipment, 2 to 15 years. Land is not depreciated.

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, 2025.

Lease Liabilities

Lease liabilities represent the District's obligation to make lease payments arising from the lease. The District recognizes a lease liability in the government-wide financial statements. Lease liabilities are recognized at the lease commencement date based on the present value of future lease payments expected to be made during the lease term. The present value of lease payments is discounted based on a borrowing rate determined by the District.

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

The District provides various forms of paid leave to employees, including vacation and sick leave, in accordance with provisions of the California Education Code and Collective Bargaining Agreements. In accordance with GASB Statement No. 101, Compensated Absences, the District recognizes a liability for:

1. Leave that has not been used when that leave:
 - (a) is attributable to services already rendered,
 - (b) accumulates for use or payment in a future period, and
 - (c) is more-likely-than-not to be used for time off or otherwise paid or settled; and
2. Leave that has been used but not yet paid or settled as of the financial statement date.

Vacation and compensatory time balances are accrued and reported as a liability when benefits are both earned and attributable to services already rendered. Accrued liabilities for compensated absences include salary related payments (such as employer payroll taxes and other amounts that are direct and incremental to payments for leave), are measured at current pay rates, and are reported as current and noncurrent liabilities in the financial statements.

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, 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, only the portion of accumulated sick leave that is more-likely-than-not to be used by the employee for paid leave is recognized as a liability in the District's financial statements. The portion of sick leave that is more-likely-than-not to be settled through conversion to service credit for employee retirement plans (CalSTRS or CalPERS) is excluded from the District's liability for compensated absences, per GASB 101 guidance.

At retirement, unused sick leave may be converted to service credit for retirement purposes in accordance with Education Code Sections 22717 and 44978. For classified school members retiring after January 1, 1999, each member receives 0.004 year of service credit for each day of unused sick leave. For certificated employees, credit for unused sick leave is determined by dividing the number of unused sick days by the number of base service days required to complete the last school year, if employed full-time.

The District applies the Last-In-First-Out (LIFO) flow assumption in calculating compensated absence liabilities. Under LIFO, current year sick leave usage is attributed first to recently earned leave, with accumulated balances preserved for future conversion to retirement service credit. Balances expected to be converted to pension service credit are excluded from compensated absence liabilities.

For financial statements prepared using the current financial resources measurement focus, expenditures for compensated absences are recognized to the extent normally expected to be liquidated with expendable available financial resources; the full liability is recognized in the government-wide statements. Certain types of leave (e.g., parental, military, or jury duty leave) are not recognized as a liability until the leave commences.

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 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, 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

Debt premiums, discounts, and debt issuance costs related to prepaid insurance are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund 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 method.

In governmental fund financial statements, bond premiums, discounts, and 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, 2025, 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 related to net of investment in capital assets consists of capital assets, net of accumulated depreciation and amortization, 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.

Adoption of New Accounting Standard

Implementation of GASB Statement No. 101

As of June 30, 2025, the District adopted GASB Statement No. 101, *Compensated Absences*. The provisions of this standard modernize the types of leave that are considered a compensated absence and provides guidance for a consistent recognition and measurement of the compensated absence liability. The effect of the implementation of this standard on beginning net position is disclosed in Note 16.

Note 2 - Deposits and Investments

Summary of Deposits and Investments

Deposits and investments as of June 30, 2025, are classified in the accompanying financial statements as follows:

Governmental funds	
Cash and cash equivalents	<u>\$ 131,772,597</u>
Total cash and cash equivalents	<u><u>\$ 131,772,597</u></u>

Deposits and investments as of June 30, 2025, consist of the following:

Cash on hand and in banks	\$ 1,114,874
Cash with fiscal agent	12,463,745
Cash in revolving	20,500
Cash in county pool	<u>118,173,478</u>
Total deposits and investments	<u><u>\$ 131,772,597</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 \$118,173,478 District's investment in the County Pool is 415 days as of June 30, 2025. The District also invested in a guaranteed investment contract related to its certificates of participation for \$12,463,745 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, 2025.

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 \$118,173,478 investment in the Santa Clara County pool and its \$12,463,745 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, 2025, 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	\$ 2,382,126	\$ -	\$ -	\$ 625,832	\$ 3,007,958
State Government					
LCFF apportionment	840,986	-	-	-	840,986
Categorical aid	2,151,755	-	-	246,569	2,398,324
Lottery	571,127	-	-	-	571,127
Other State	2,154,610	-	-	-	2,154,610
Local Government					
Interest	646,219	303,868	191,325	76,233	1,217,645
Total	<u>\$ 8,746,823</u>	<u>\$ 303,868</u>	<u>\$ 191,325</u>	<u>\$ 948,634</u>	<u>\$ 10,190,650</u>

Note 5 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2025, was as follows:

	Balance July 1, 2024	Additions	Deductions	Balance June 30, 2025
Governmental Activities				
Capital assets not being depreciated or amortized				
Land	\$ 17,615,844	\$ -	\$ -	\$ 17,615,844
Construction in progress	49,292,485	9,278,622	(41,636,039)	16,935,068
Total capital assets not being depreciated or amortized	66,908,329	9,278,622	(41,636,039)	34,550,912
Capital assets being depreciated or amortized				
Buildings and improvements	370,777,251	46,423,970	(1,873,505)	415,327,716
Furniture and equipment	5,232,111	514,488	(2,123,897)	3,622,702
Total capital assets being depreciated	376,009,362	46,938,458	(3,997,402)	418,950,418
Total capital assets	442,917,691	56,217,080	(45,633,441)	453,501,330
Accumulated depreciation				
Buildings and improvements	(117,265,908)	(10,946,587)	1,873,505	(126,338,990)
Furniture and equipment	(3,592,975)	(199,058)	1,884,733	(1,907,300)
Total accumulated depreciation	(120,858,883)	(11,145,645)	3,758,238	(128,246,290)
Governmental activities capital assets, net	\$ 322,058,808	\$ 45,071,435	\$ (41,875,203)	\$ 325,255,040

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

Governmental Activities	
Instruction	\$ 7,632,057
Supervision of instruction	282,471
Instructional library, media, and technology	76,421
School site administration	937,428
Ancillary services	184,570
Community services	4,011
All other administration	616,969
Plant services	146,767
Facility acquisition and construction	1,264,951
Total depreciation expense governmental activities	\$ 11,145,645

Note 6 - Interfund Transactions

Interfund Receivables/Payables (Due To/Due From)

Due To	Due From	
	General Fund	Total
Building Fund	\$ 22,027	\$ 22,027
Capital Facilities Fund	74,478	74,478
Non-Major Governmental Funds	197,864	197,864
Total	<u>\$ 294,369</u>	<u>\$ 294,369</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, 2025, consisted of the following:

Transfer To	Transfer From		
	General Fund	Building Fund	Total
General Fund	\$ -	\$ 412,794	\$ 412,794
Capital Facilities Fund	74,478	-	74,478
Non-Major Governmental Funds	100,000	-	100,000
Total	<u>\$ 174,478</u>	<u>\$ 412,794</u>	<u>\$ 587,272</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 back to the General Fund for Facilities	74,478
The Special Reserve Fund transferred to General Fund to cover project expenditures.	<u>100,000</u>
Total	<u>\$ 587,272</u>

Note 7 - Accounts Payable

Accounts payable at June 30, 2025, consisted of the following:

	General Fund	Building Fund	Capital Facilities Fund	Non-Major Governmental Funds	Total
Vendor payables	\$ 5,270,221	\$ 2,240,792	\$ 95,166	\$ 88,690	\$ 7,694,869
Salaries and benefits	882,333	-	-	90,060	972,393
Total	<u>\$ 6,152,554</u>	<u>\$ 2,240,792</u>	<u>\$ 95,166</u>	<u>\$ 178,750</u>	<u>\$ 8,667,262</u>

Note 8 - Unearned Revenue

Unearned revenue at June 30, 2025, consists of the following:

	General Fund
Federal financial assistance	\$ 66,220
State categorical aid	682,492
Other local	9
Total	<u>\$ 748,721</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, 2024 as Restated	Additions	Deductions	Balance June 30, 2025	Due in One Year
Long-Term Liabilities					
General obligation bonds	\$ 162,395,000	\$ -	\$ (3,970,000)	\$ 158,425,000	\$ 1,725,000
Unamortized debt premiums	16,081,701	-	(819,900)	15,261,801	819,900
Certificates of participation	13,505,000	-	-	13,505,000	-
Unamortized debt discounts	(41,513)	-	13,840	(27,673)	13,840
Compensated absences *	618,933	47,703	-	666,636	266,654
Total	<u>\$ 192,559,121</u>	<u>\$ 47,703</u>	<u>\$ (4,776,060)</u>	<u>\$ 187,830,764</u>	<u>\$ 2,825,394</u>

* Restated

The change in compensated absences is presented as a net change.

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

Issuance Date	Final Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2024	Redeemed	Bonds Outstanding June 30, 2025
2017	2047	2.69%-5.00%	\$ 80,000,000	\$ 64,480,000	\$ -	\$ 64,480,000
2023	2042	2.94%-5.25%	63,250,000	60,750,000	(3,500,000)	57,250,000
2023	2043	5.00%	31,805,000	37,165,000	(470,000)	36,695,000
				<u>\$ 162,395,000</u>	<u>\$ (3,970,000)</u>	158,425,000
Unamortized premium						<u>15,261,801</u>
Total						<u>\$ 173,686,801</u>

The outstanding general obligation bonded debt is as follows:

Debt Service Requirements to Maturity

The bonds mature through 2049 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2026	\$ 1,725,000	\$ 7,288,263	\$ 9,013,263
2027	1,765,000	7,201,013	8,966,013
2028	2,140,000	7,103,388	9,243,388
2029	2,545,000	6,986,263	9,531,263
2030	2,980,000	6,848,138	9,828,138
2031-2035	23,665,000	31,284,990	54,949,990
2036-2040	41,610,000	23,549,121	65,159,121
2041-2045	52,465,000	11,340,962	63,805,962
2046-2049	29,530,000	1,831,400	31,361,400
Total	<u>\$ 158,425,000</u>	<u>\$ 103,433,538</u>	<u>\$ 261,858,538</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
2026	\$ -	\$ 958,855	\$ 958,855
2027	13,505,000	958,855	14,463,855
Total	<u>\$ 13,505,000</u>	<u>\$ 1,917,710</u>	<u>\$ 15,422,710</u>

Compensated Absences

Compensated absences for the District at June 30, 2025 amounted to \$666,636.

Note 10 - Total Other Postemployment Benefit (OPEB) Liability

For the fiscal year ended June 30, 2025, the District reported total OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense for the following plans:

OPEB Plan	Total OPEB Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	OPEB Expense
District Plan	<u>\$ 3,451,833</u>	<u>\$ 2,491,073</u>	<u>\$ 7,692,370</u>	<u>\$ 2,837,078</u>

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, 2023, 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	<u>150</u>
Total	<u><u>197</u></u>

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 2024-2025, the District contributed \$277,125 to the Plan, all of which was used for current premiums.

Total OPEB Liability of the District

The District's total OPEB liability of \$3,451,833 was measured as of June 30, 2024, 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, 2025, 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	4.21 percent, net of OPEB plan investment expense, including inflation
Healthcare cost trend rates	4.00 percent for 2024 and after

The discount rate of 4.21% (4.13% in 2024) 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	\$ 3,554,412
Service cost	\$ 72,728
Interest	140,700
Changes of assumptions or other inputs	(20,734)
Benefit payments	(295,273)
Net change in total OPEB liability	(102,579)
Balance, June 30	\$ 3,451,833

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 Act (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 (3.21%)	\$ 3,728,013
Current discount rate (4.21%)	3,451,833
1% increase (5.21%)	3,208,934

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%)	\$ 3,384,473
Current healthcare cost trend rate (4%)	3,451,833
1% increase (5%)	3,536,208

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

For the year ended June 30, 2025, the District recognized OPEB expense of \$2,837,078. At June 30, 2025, 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	\$ 277,125	\$ -
Differences between expected and actual experience	-	5,523,062
Changes of assumptions	2,213,948	2,169,308
Total	\$ 2,491,073	\$ 7,692,370

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.

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, 2023, valuation date, the average for District employees is 8.2 years. The deferred inflows will be recognized in OPEB expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2026	\$ (3,050,506)
2027	(1,603,294)
2028	(718,651)
2029	(136,116)
2030	(108,279)
Thereafter	138,424
Total	\$ (5,478,422)

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	18,786	-	-	1,000	19,786
Total nonspendable	33,286	-	-	6,000	39,286
Restricted					
Educational programs	12,385,207	-	-	1,791,491	14,176,698
Food program	-	-	-	3,138,992	3,138,992
Capital projects	-	41,153,878	22,041,920	3,651,248	66,847,046
Debt services	-	-	-	5,766,560	5,766,560
Total restricted	12,385,207	41,153,878	22,041,920	14,348,291	89,929,296
Assigned					
Site carryover	217,027	-	-	-	217,027
Total assigned	217,027	-	-	-	217,027
Unassigned					
Reserve for economic uncertainties	4,195,901	-	-	-	4,195,901
Remaining unassigned	38,184,540	-	-	-	38,184,540
Total unassigned	42,380,441	-	-	-	42,380,441
Total	\$ 55,015,961	\$ 41,153,878	\$ 22,041,920	\$ 14,354,291	\$ 132,566,050

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, 2025, 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 2025, 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, 2025, 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	\$ 57,853,082	\$ 25,750,888	\$ 6,763,485	\$ 6,963,277
CalPERS	35,997,201	11,126,284	379,517	6,327,863
Total	<u>\$ 93,850,283</u>	<u>\$ 36,877,172</u>	<u>\$ 7,143,002</u>	<u>\$ 13,291,140</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, 2023, 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:

<https://www.calstrs.com/forms-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, 2025, 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	10.828%	10.828%

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, 2025, are presented above and the District's total contributions were \$10,704,639.

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

At June 30, 2025, 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	\$ 57,853,082
State's proportionate share of the net pension liability	<u>26,543,193</u>
Total	<u><u>\$ 84,396,275</u></u>

The net pension liability was measured as of June 30, 2024. 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 member districts and the State, actuarially determined. The District's proportionate share for the measurement period June 30, 2024 and June 30, 2023, respectively was 0.0861 percent and 0.0840 percent, resulting in a net increase in the proportionate share of 0.0021 percent.

For the year ended June 30, 2025, the District recognized its proportionate share pension expense of \$6,963,277. In addition, the District also recorded pension expense and revenue of \$2,416,447 for support provided by the State. At June 30, 2025, 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	\$ 10,704,639	\$ -
Change in proportion and differences between contributions made and District's proportionate share of contributions	8,249,074	49,001
Differences between projected and actual earnings on pension plan investments	-	233,436
Differences between expected and actual experience in the measurement of the total pension liability	6,543,928	2,529,883
Changes of assumptions	<u>253,247</u>	<u>3,951,165</u>
Total	<u><u>\$ 25,750,888</u></u>	<u><u>\$ 6,763,485</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	\$ (3,878,307)
2027	4,670,921
2028	(381,090)
2029	(644,960)
Total	<u>\$ (233,436)</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	\$ 1,663,360
2027	1,593,849
2028	1,609,307
2029	1,831,556
2030	1,864,246
Thereafter	(46,118)
Total	<u>\$ 8,516,200</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, 2023, and rolling forward the total pension liability to June 30, 2024. The financial reporting actuarial valuation as of June 30, 2023, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2023
Measurement date	June 30, 2024
Experience study	July 1, 2007 through June 30, 2022
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 is based off generational mortality tables that reflect expected future improvements in mortality and includes a base table and a projection table. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among our members. The projection table reflects the expected annual reduction in mortality rates at each age. The current mortality assumption uses a base year of 2023, and projected improvement is based on the MP-2021 Ultimate Projection Scale.

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 2024 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. The assumed asset allocation and best estimates of the expected rates of return for each major asset class for the year ended June 30, 2024, 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%. 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% 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%)	\$ 102,901,703
Current discount rate (7.10%)	57,853,082
1% increase (8.10%)	20,235,615

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, 2023 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, 2025, 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	27.05%	27.05%

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, 2025, are presented above and the total District contributions were \$5,360,114.

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

As of June 30, 2025, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$35,997,201. The net pension liability was measured as of June 30, 2024. 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, 2024 and June 30, 2023, respectively was 0.1007 percent and 0.1012 percent, resulting in a net decrease in the proportionate share of 0.0005 percent.

For the year ended June 30, 2025, the District recognized pension expense of \$6,327,863. At June 30, 2025, 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	\$ 5,360,114	\$ -
Change in proportion and differences between contributions made and District's proportionate share of contributions	554,388	121,886
Differences between projected and actual earnings on pension plan investments	1,398,283	-
Differences between expected and actual experience in the measurement of the total pension liability	3,017,839	257,631
Changes of assumptions	795,660	-
Total	<u>\$ 11,126,284</u>	<u>\$ 379,517</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	\$ (12,054)
2027	2,174,013
2028	(321,237)
2029	(442,439)
Total	<u>\$ 1,398,283</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 (EARS�) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARS� 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	\$ 2,095,213
2027	1,250,419
2028	642,738
Total	<u>\$ 3,988,370</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, 2023, and rolling forward the total pension liability to June 30, 2024. The financial reporting actuarial valuation as of June 30, 2023, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2023
Measurement date	June 30, 2024
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%. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the SEP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on the School Employer Pool investments 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%)	\$ 53,474,143
Current discount rate (6.90%)	35,997,201
1% increase (7.90%)	21,559,856

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 \$5,359,633. 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, 2025.

Construction Commitments

As of June 30, 2025, the District had the following commitments with respect to unfinished capital projects:

Capital Project	Remaining Construction Commitment	Expected Date of Completion
Britton Building C Demo	\$1,263,622	September 2025
Britton Gym Mod	1,515,251	August 2025
Live Oak Student Parking Lot	1,046,195	August 2025
Deferred Maintenance Projects	3,034,837	August 2025
Deferred Maintenance Projects	25,258	January 2026
Deferred Maintenance Projects	68,216	August 2026
Technology - Data Center Upgrade	11,571	June 2026
Technology - Network Infrastructure	603,137	June 2026
Technology - Telephone System Upgrade	28,462	June 2026
Total	\$ 7,596,549	

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

As of June 30, 2025, the District adopted GASB Statement No. 101, *Compensated Absences*. The provisions of this standard modernize the types of leave that are considered a compensated absence and provides guidance for a consistent recognition and measurement of the compensated absence liability. Therefore, compensated absences current portion and compensated absences noncurrent portion were increased by \$59,252 and \$289,152, respectively, as of July 1, 2024. The effect of this change in accounting principle is described in the table below.

	Government-Wide Governmental Activities
Beginning, as previously reported on July 1, 2024	\$ 196,290,036
Change in Accounting Policy	(348,404)
Beginning, as Restated on July 1, 2024	<u>\$ 195,941,632</u>

Required Supplementary Information
June 30, 2025

Morgan Hill Unified School District

Morgan Hill Unified School District
Budgetary Comparison Schedule – General Fund
Year Ended June 30, 2025

	Budgeted Amounts		Actual	Variances - Positive (Negative)
	Original	Final		Final to Actual
Revenues				
Local control funding formula	\$ 99,989,328	\$ 95,470,835	\$ 95,991,553	\$ 520,718
Federal sources	4,024,459	4,150,463	3,867,824	(282,639)
Other State sources	14,982,491	14,825,775	19,329,447	4,503,672
Other local sources	8,535,788	10,127,916	12,578,368	2,450,452
Total revenues	127,532,066	124,574,989	131,767,192	7,192,203
Expenditures				
Current				
Certificated salaries	60,094,055	59,419,160	58,719,999	699,161
Classified salaries	20,808,659	20,569,508	19,478,017	1,091,491
Employee benefits	34,489,394	33,732,359	32,164,321	1,568,038
Books and supplies	5,032,909	6,857,804	3,966,883	2,890,921
Services and operating expenditures	17,475,554	20,546,428	20,062,365	484,063
Other outgo	4,974,188	3,813	(317)	4,130
Capital outlay	1,761,698	1,761,697	917,716	843,981
Total expenditures	144,636,457	142,890,769	135,308,984	7,581,785
Excess (Deficiency) of Revenues Over Expenditures	(17,104,391)	(18,315,780)	(3,541,792)	14,773,988
Other Financing Sources (Uses)				
Transfers in	4,497,936	4,497,936	8,508,521	4,010,585
Transfers out	(4,545,730)	(4,545,730)	(4,554,381)	(8,651)
Net Financing Sources (Uses)	(47,794)	(47,794)	3,954,140	4,001,934
Net Change in Fund Balances	(17,152,185)	(18,363,574)	412,348	18,775,922
Fund Balance - Beginning	54,386,585	54,386,585	54,386,585	-
Fund Balance - Ending	\$ 37,234,400	\$ 36,023,011	54,798,933	\$ 18,775,922
Special Reserve Fund for Other Than Capital Outlay Projects			1	
Special Reserve Fund for Postemployment Benefits			217,027	
Fund Balance - Ending			\$ 55,015,961	

Morgan Hill Unified School District
Schedule of Changes in the District's Total OPEB Liability and Related Ratios
Year Ended June 30, 2025

	2025	2024	2023	2022	2021	2020	2019	2018
Total OPEB Liability								
Service cost	\$ 72,728	\$ 213,360	\$ 296,247	\$ 1,740,261	\$ 1,626,960	\$ 1,952,843	\$ 1,818,977	\$ 1,984,946
Interest	140,700	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	(20,734)	667,957	(1,813,213)	649,414	1,114,453	2,139,162	1,281,703	(3,591,558)
Benefit payments	(295,273)	(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	(102,579)	(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	3,554,412	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>\$ 3,451,833</u>	<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	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	N/A ¹
Measurement Date	June 30, 2024	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, 2025

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
CalSTRS										
Proportion of the net pension liability (asset)	0.0861%	0.0840%	0.0745%	0.0718%	0.0691%	0.0689%	0.0663%	0.0685%	0.0686%	0.0700%
Proportionate share of the net pension liability (asset)	\$ 57,853,082	\$ 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
State's proportionate share of the net pension liability (asset)	26,543,193	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
Total	\$ 84,396,275	\$ 94,651,743	\$ 77,680,704	\$ 49,113,649	\$ 101,419,249	\$ 96,153,643	\$ 95,844,604	\$ 100,775,232	\$ 87,133,426	\$ 72,010,738
Covered payroll	\$ 57,150,550	\$ 51,818,277	\$ 43,237,128	\$ 39,065,152	\$ 37,674,591	\$ 36,789,958	\$ 36,382,579	\$ 36,639,182	\$ 34,366,785	\$ 29,917,624
Proportionate share of the net pension liability as a percentage of its covered payroll	101.23%	123.49%	119.71%	83.64%	177.63%	169.10%	167.52%	172.81%	161.56%	157.43%
Plan fiduciary net position as a percentage of the total pension liability	84%	81%	81%	81%	72%	73%	71%	69%	70%	74%
Measurement Date	June 30, 2024	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
CalPERS										
Proportion of the net pension liability (asset)	0.1007%	0.1012%	0.0985%	0.0955%	0.0989%	0.1033%	0.1042%	0.1014%	0.0974%	0.0960%
Proportionate share of the net pension liability (asset)	\$ 35,997,201	\$ 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
Covered payroll	\$ 19,875,255	\$ 17,539,696	\$ 15,112,519	\$ 13,704,507	\$ 14,243,629	\$ 14,383,598	\$ 13,744,412	\$ 12,933,837	\$ 11,687,917	\$ 10,633,088
Proportionate share of the net pension liability (asset) as a percentage of its covered payroll	181.12%	208.81%	224.37%	141.73%	213.01%	209.28%	202.12%	187.20%	164.62%	133.13%
Plan fiduciary net position as a percentage of the total pension liability	72%	70%	70%	81%	70%	70%	71%	72%	74%	79%
Measurement Date	June 30, 2024	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

Morgan Hill Unified School District
Schedule of the District's Contributions for Pension
Year Ended June 30, 2025

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
CalSTRS										
Proportion of the net pension liability (asset)	0.0861%	0.0840%	0.0745%	0.0718%	0.0691%	0.0689%	0.0663%	0.0685%	0.0686%	0.0700%
Proportionate share of the net pension liability (asset)	\$ 57,853,082	\$ 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
State's proportionate share of the net pension liability (asset)	26,543,193	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
Total	\$ 84,396,275	\$ 94,651,743	\$ 77,680,704	\$ 49,113,649	\$ 101,419,249	\$ 96,153,643	\$ 95,844,604	\$ 100,775,232	\$ 87,133,426	\$ 72,010,738
Covered payroll	\$ 57,150,550	\$ 51,818,277	\$ 43,237,128	\$ 39,065,152	\$ 37,674,591	\$ 36,789,958	\$ 36,382,579	\$ 36,639,182	\$ 34,366,785	\$ 29,917,624
Proportionate share of the net pension liability as a percentage of its covered payroll	101.23%	123.49%	119.71%	83.64%	177.63%	169.10%	167.52%	172.81%	161.56%	157.43%
Plan fiduciary net position as a percentage of the total pension liability	84%	81%	81%	87%	72%	73%	71%	69%	70%	74%
Measurement Date	June 30, 2024	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
CalPERS										
Proportion of the net pension liability (asset)	0.1007%	0.1012%	0.0985%	0.0955%	0.0989%	0.1033%	0.1042%	0.1014%	0.0974%	0.0960%
Proportionate share of the net pension liability (asset)	\$ 35,997,201	\$ 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
Covered payroll	\$ 19,875,255	\$ 17,539,696	\$ 15,112,519	\$ 13,704,507	\$ 14,243,629	\$ 14,383,598	\$ 13,744,412	\$ 12,933,837	\$ 11,687,917	\$ 10,633,088
Proportionate share of the net pension liability (asset) as a percentage of its covered payroll	181.12%	208.81%	224.37%	141.73%	213.01%	209.28%	202.12%	187.20%	164.62%	133.13%
Plan fiduciary net position as a percentage of the total pension liability	72%	70%	70%	81%	70%	70%	71%	72%	74%	79%
Measurement Date	June 30, 2024	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

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 4.21% at June 30, 2025 from 4.13% at June 30, 2024.

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 for the CalSTRS or CalPERS plans since the previous valuations.
- *Changes of Assumptions* – There were no changes in economic assumptions for the CalSTRS or CalPERS plans since 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, 2025

Morgan Hill Unified School District

Morgan Hill Unified School District
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2025

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	\$ 1,780,498
Special Education Grants to States	84.027	15197	93,098
Special Education Preschool Grants	84.173	13430	29,223
Special Education Preschool Grants	84.173	13431	215
Total Special Education Cluster			1,903,034
Passed Through California Department of Education (CDE)			
Title I Grants to Local Educational Agencies	84.010	14329	842,862
Title I Grants to Local Educational Agencies	84.010	15438	169,455
Total			1,012,317
Migrant Education State Grant Program	84.011	14838	171,494
Migrant Education State Grant Program	84.011	10005	73,188
Total			244,682
English Language Acquisition State Grants	84.365	14346	134,226
Total			134,226
Career and Technical Education - Basic Grants to States- Rehabilitation	84.048	14891	244,653
Career and Technical Education - Basic Grants to States	84.048	14894	61,647
Total			306,300
Supporting Effective Instruction State Grants	84.367	14341	196,669
Education of Homeless Children and Youth	84.196	14332	70,597
Total U.S. Department of Education			3,867,825
U.S. Department of Agriculture			
Passed Through California Department of Education			
Child Nutrition Cluster			
National School Lunch Program	10.555	13391	1,241,177
School Breakfast Program	10.553	13526	509,631
National School Lunch Program	10.555	15637	305,068
National School Lunch Program	10.555	13526	11,952
National School Lunch Program	10.555	15655	239,876
Total Child Nutrition Cluster			2,307,704
Child and Adult Care Food Program	10.558	13393	5,039
Child Nutrition Discretionary Grants Limited Availability	10.579	14906	144,689
Total U.S. Department of Agriculture			2,457,432
Total Federal Financial Assistance			\$ 6,325,257

Morgan Hill Unified School District
Schedule of Average Daily Attendance
Year Ended June 30, 2025

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	2,200.15	2,203.76
Fourth through sixth	1,550.57	1,548.58
Seventh and eighth	1,035.07	1,028.42
Ninth through twelfth	2,479.60	2,465.76
Total Regular ADA	7,265.39	7,246.52
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	0.58	0.44
Fourth through sixth	2.45	2.44
Seventh and eighth	2.79	2.66
Ninth through twelfth	4.74	4.66
Total Special Education, Nonpublic, Nonsectarian Schools	10.56	10.20
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.14	0.14
Fourth through sixth	0.23	0.23
Seventh and eighth	0.05	0.05
Ninth through twelfth	0.67	0.67
Total Extended Year Special Education, Nonpublic, Nonsectarian Schools	1.09	1.09
Total ADA	7,280	7,260

Morgan Hill Unified School District
Schedule of Instructional Time
Year Ended June 30, 2025

Grade Level	1986-1987 Minutes Requirement	2024-2025 Actual Minutes	Number of Minutes Credited Form J-13A	Total Minutes Offered	Traditional Calendar		Total Days Offered	Status
					Number of Actual Days	Number of Days Credited Form J-13A		
Kindergarten	36,000	53,940	-	53,940	180	-	180	Complied
Grades 1 - 3	50,400							
Grade 1		54,300	-	54,300	180	-	180	Complied
Grade 2		54,300	-	54,300	180	-	180	Complied
Grade 3		54,300	-	54,300	180	-	180	Complied
Grades 4 - 8	54,000							
Grade 4		56,370	-	56,370	180	-	180	Complied
Grade 5		56,370	-	56,370	180	-	180	Complied
Grade 6		58,506	-	58,506	180	-	180	Complied
Grade 7		58,506	-	58,506	180	-	180	Complied
Grade 8		58,506	-	58,506	180	-	180	Complied
Grades 9 - 12	64,800							
Grade 9		64,940	-	64,940	180	-	180	Complied
Grade 10		64,940	-	64,940	180	-	180	Complied
Grade 11		64,940	-	64,940	180	-	180	Complied
Grade 12		64,940	-	64,940	180	-	180	Complied

* Note: The District did file J-13A during the current year. Zero days were credited to Ann Sobrato High; Barrett Elementary; Britton Middle; El Toro Health Science; Jackson Academy of Math and Music; Los Paseos Elementary; Martin Murphy Middle; Norstrom Elementary; Paradise Valley Engineering; P.A. Walsh Elementary; San Martin/Gwinn Enviromental Science.

Grade Level	1986-1987 Minutes Requirement	2024-2025 Actual Minutes	Number of Minutes Credited Form J-13A	Total Minutes Offered	Traditional Calendar		Total Days Offered	Status
					Number of Actual Days	Number of Days Credited Form J-13A		
Grades 9 - 12	64,800							
Grade 9		64,560	380	64,940	179	1	180	Complied
Grade 10		64,560	380	64,940	179	1	180	Complied
Grade 11		64,560	380	64,940	179	1	180	Complied
Grade 12		64,560	380	64,940	179	1	180	Complied

* Note: The District did file J-13A during the current year. 1 Day was crediited to Live Oak High School. 380 minutes were credited to Grades 9-12.

Morgan Hill Unified School District
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements
Year Ended June 30, 2025

	General Fund	Special Reserve Fund for Other Than Capital Outlay Projects	Special Reserve Fund for Postemployment Benefits
Fund Balance			
Balance, June 30, 2025, Unaudited Actuals	\$ 54,798,933	\$ 1	\$ 217,027
As a result of the implementation of GASB Statement No. 54, Fund 17 and Fund 20 are combined into the financial statement	<u>217,028</u>	<u>(1)</u>	<u>(217,027)</u>
Balance, June 30, 2025, Audited Financial Statements	<u><u>\$ 55,015,961</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, 2025

	(Budget) 2026 ¹	2025	2024	2023
General Fund				
Revenues	\$ 123,227,671	\$ 131,928,978	\$ 135,417,985	\$ 139,386,314
Other sources	4,217,936	174,478	413,781	114,675
Total revenues and other sources	127,445,607	132,103,456	135,831,766	139,500,989
Expenditures	141,994,196	135,308,984	141,146,308	127,350,748
Other uses and transfers out	432,794	512,794	755,544	417,426
Total expenditures and other uses	142,426,990	135,821,778	141,901,852	127,768,174
Increase/(Decrease) in Fund Balance	(14,981,383)	(3,718,322)	(6,070,086)	11,732,815
Ending Fund Balance	\$ 40,034,577	\$ 55,015,960	\$ 58,734,282	\$ 64,804,368
Available Reserves ²	\$ 4,272,810	\$ 42,380,441	\$ 45,567,508	\$ 44,485,138
Available Reserves as a Percentage of Total Outgo	3.00%	31.20%	32.11%	34.82%
Long-Term Liabilities ³	\$ 185,005,370	\$ 187,830,764	\$ 192,210,716	\$ 196,512,594
K-12 Average Daily Attendance at P-2	7,322	7,279	7,363	7,351

The General Fund balance has decreased by \$9,788,408 over the past two years. The fiscal year 2025-2026 budget projects a decrease of \$14,981,383 in General Fund balance. For a district this size, the State recommends available reserves of at least 3 percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred an operating surplus in 2023, operating deficit in 2024 and 2025 and anticipates incurring an operating deficit during the 2025-2026 fiscal year. Total long-term liabilities have decreased by \$8,681,830 over the past two years. Average daily attendance has decreased by 72 over the past two years. An additional decrease of 43 ADA is anticipated in fiscal year 2025-2026.

¹ Financial information for 2026, 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.

<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, 2025

	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	\$ 1,114,874	\$ 408,465	\$ 121,186	\$ 2,771,130	\$ 412,433	\$ 3,208,786	\$ 5,745,397	\$ 13,782,271
Receivables	-	212,960	39,508	644,815	3,693	26,495	21,163	948,634
Total assets	<u>\$ 1,114,874</u>	<u>\$ 621,425</u>	<u>\$ 160,694</u>	<u>\$ 3,415,945</u>	<u>\$ 416,126</u>	<u>\$ 3,235,281</u>	<u>\$ 5,766,560</u>	<u>\$ 14,730,905</u>
Liabilities and Fund Balances								
Liabilities								
Accounts payable	\$ -	\$ 22,513	\$ 23,532	\$ 132,546	\$ -	\$ 159	\$ -	\$ 178,750
Due to other funds	-	30,738	23,719	143,407	-	-	-	197,864
Total liabilities	<u>-</u>	<u>53,251</u>	<u>47,251</u>	<u>275,953</u>	<u>-</u>	<u>159</u>	<u>-</u>	<u>376,614</u>
Fund Balances								
Nonspendable	-	5,000	-	1,000	-	-	-	6,000
Restricted	1,114,874	563,174	113,443	3,138,992	416,126	3,235,122	5,766,560	14,348,291
Total fund balances	<u>1,114,874</u>	<u>568,174</u>	<u>113,443</u>	<u>3,139,992</u>	<u>416,126</u>	<u>3,235,122</u>	<u>5,766,560</u>	<u>14,354,291</u>
Total liabilities and fund balances	<u>\$ 1,114,874</u>	<u>\$ 621,425</u>	<u>\$ 160,694</u>	<u>\$ 3,415,945</u>	<u>\$ 416,126</u>	<u>\$ 3,235,281</u>	<u>\$ 5,766,560</u>	<u>\$ 14,730,905</u>

Morgan Hill Unified School District

Combining Statement of Revenues, Expenditure, and Changes in Fund Balances – Non-Major Governmental Funds

Year Ended June 30, 2025

	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	\$ -	\$ -	\$ -	\$ 2,217,557	\$ -	\$ -	\$ -	\$ 2,217,557
Other State sources	-	668,006	587,556	2,420,254	-	-	27,312	3,703,127
Other local sources	1,382,833	38,005	8,382	199,116	20,651	753,157	8,657,275	11,059,419
Total revenues	1,382,833	706,011	595,938	4,836,927	20,651	753,157	8,684,587	16,980,103
Expenditures								
Current								
Instruction	-	251,778	523,075	-	-	-	-	774,853
Instruction-related activities								
Supervision of instruction	-	202,585	-	-	-	-	-	202,585
School site administration	-	179,575	-	-	-	-	-	179,575
Pupil services								
Food services	-	-	-	4,607,535	-	-	-	4,607,535
Administration								
All other administration	-	30,738	23,719	140,857	-	-	-	195,313
Plant services	-	-	-	-	-	176,055	-	176,055
Ancillary services	1,312,958	-	-	-	-	-	-	1,312,958
Debt service								
Principal	-	-	-	-	-	-	3,970,000	3,970,000
Interest and other	-	-	-	-	-	-	7,435,383	7,435,383
Total expenditures	1,312,958	664,676	546,794	4,748,392	-	176,055	11,405,383	18,854,257
Excess (Deficiency) of Revenues Over Expenditures	69,875	41,335	49,144	88,535	20,651	577,102	(2,720,796)	(1,874,154)
Fund Balance - Beginning	1,044,999	526,839	64,299	3,051,457	395,475	2,658,020	8,487,356	16,228,445
Fund Balance - Ending	\$ 1,114,874	\$ 568,174	\$ 113,443	\$ 3,139,992	\$ 416,126	\$ 3,235,122	\$ 5,766,560	\$ 14,354,291

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, 2025. 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	\$ 6,792,460
Federal Interest Rate Subsidy	(707,079)
Supply Chain Assistance Revenue recognized in prior year	239,876
Total federal financial assistance	<u>\$ 6,325,257</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, 2025

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, 2025

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 (the District), as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 15, 2025.

Adoption of New Accounting Standard

As discussed in Note 16 to the financial statements, the District has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 101, *Compensated Absences* for the year ended June 30, 2025. Accordingly, a restatement has been made to the governmental activities and net position as of July 1, 2024 to restate beginning net position. Our opinions are not modified with respect to this matter.

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 or significant deficiencies may exist that were not 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 District'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
December 15, 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 (the 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, 2025. 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, 2025.

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
December 15, 2025



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

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

Report on Compliance

Opinion on State Compliance

We have audited Morgan Hill Unified School Districts (District) compliance with the requirements specified in the *2024-2025 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, 2025.

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, 2025.

Basis for Opinion

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS), the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*), and the *2024-2025 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the *2024-2025 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 *2024-2025 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 *2024-2025 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:

2024-2025 K-12 Audit Guide Procedures	Procedures Performed
Local Education Agencies Other Than Charter Schools	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Independent Study	No
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

2024-2025 K-12 Audit Guide Procedures	Procedures Performed
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	No
Immunizations	Yes
Educator Effectiveness	Yes
Expanded Learning Opportunities Grant (ELO-G)	N/A
Career Technical Education Incentive Grant	Yes
Expanded Learning Opportunities Program	Yes
Transitional Kindergarten	Yes
Kindergarten Continuance	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

We did not perform testing for Independent Study or Independent Study-Course Based because average daily attendance reported did not exceed thresholds required for testing.

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 identify 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 on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention from those charged with governance.

Our 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 *2024-2025 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP".

Menlo Park, California
December 15, 2025

Financial Statements

Type of auditor's report issued	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 Financial 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	No
Significant deficiencies identified not considered to be material weaknesses	None Reported
Other matters to be reported	No
Type of auditor's report issued on compliance for programs	Unmodified

None reported.

None reported.

None reported.

Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's Schedule of Findings and Questioned Costs.

State Compliance Finding

2024-001 Noncompliance, material weakness in internal control, School Accountability Report Card

Finding

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

Context

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

Current Status

Resolved.

2024-002 Noncompliance, Educator Effectiveness

Criteria

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

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.

Current Status

Resolved.