

MORGAN HILL UNIFIED SCHOOL DISTRICT

**2012 MEASURE G FUND
ANNUAL FINANCIAL REPORT**

FOR THE YEAR ENDED JUNE 30, 2014

**MORGAN HILL UNIFIED SCHOOL DISTRICT
2012 MEASURE G FUND**

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JUNE 30, 2014**

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INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

Governing Board and Citizens Oversight Committee
Morgan Hill Unified School District
Morgan Hill, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Morgan Hill Unified School District's (the District) 2012 Measure G Fund (the Fund) as of and for the year ended June 30, 2014 and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the Fund as of June 30, 2014, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the financial position of the Fund and are not intended to present fairly the financial position and results of operations of the District in conformity with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated [REDACTED], 2014, on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered with the results of our audit.

Palo Alto, California
[REDACTED], 2014

**MORGAN HILL UNIFIED SCHOOL DISTRICT
2012 MEASURE G FUND**

**BALANCE SHEET
JUNE 30, 2014**

ASSETS

Cash and investments	\$ 42,428,935
Interest receivable	44,986
Due from other funds	8,400
Total Assets	<u>\$ 42,482,321</u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Vendors payable	\$ 3,467,953
Total Liabilities	<u>3,467,953</u>

FUND BALANCE

Restricted for capital projects	39,014,368
Total Liabilities and Fund Balance	<u>\$ 42,482,321</u>

The accompanying notes are an integral part of these financial statements.

**MORGAN HILL UNIFIED SCHOOL DISTRICT
2012 MEASURE G FUND**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2014**

REVENUES AND OTHER SOURCES	
Interest and other revenues	\$ 204,903
Total Revenues and Other Sources	<u>204,903</u>
EXPENDITURES	
Current expenditures	
Classified salaries	33,210
Employee benefits	9,037
Services and operating expenditures	75,858
Capital outlay	13,308,903
Total Expenditures	<u>13,427,008</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	(13,222,105)
FUND BALANCE, BEGINNING OF YEAR	<u>52,236,473</u>
FUND BALANCE, END OF YEAR	<u>\$ 39,014,368</u>

The accompanying notes are an integral part of these financial statements.

**MORGAN HILL UNIFIED SCHOOL DISTRICT
2012 MEASURE G FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the 2012 Measure G Fund (the Fund) of the Morgan Hill Unified School District (the District), conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

Financial Reporting Entity

The financial statements include only the Fund used to account for 2012 Measure G projects. This Fund was established to account for the expenditures funded with proceeds from general obligation bonds authorized under 2012 Measure G. These financial statements are not intended to present fairly the financial position and results of operations of the District in conformity with accounting principles generally accepted in the United States of America.

Fund Accounting

The operations of the Fund are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Resources are allocated to and accounted for in the Fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

Basis of Accounting

The Fund is accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources.

Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. The District's governing board adopts an operating budget no later than July 1 in accordance with State law. A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements. The Board revises this budget during the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

Encumbrances

The District utilizes an encumbrance accounting system under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation. Encumbrances are liquidated when the commitments are paid and all outstanding encumbrances are liquidated at June 30 since they do not constitute expenditures or liabilities.

**MORGAN HILL UNIFIED SCHOOL DISTRICT
2012 MEASURE G FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

Spending Order Policy

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance are 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.

Use of Estimates

The preparation of 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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 - INVESTMENTS

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 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.

**MORGAN HILL UNIFIED SCHOOL DISTRICT
2012 MEASURE G FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

General Authorizations

Limitations as they relate to interest rate risk and concentration of credit risk are indicated in the schedule 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 is to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Pool. The \$42,428,935 of investments on June 30 has a fair value of \$42,476,583 and a weighted average maturity of 416 days, as reported by the County Treasurer.

**MORGAN HILL UNIFIED SCHOOL DISTRICT
2012 MEASURE G FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 3 - 2012 MEASURE G BONDS

Summary

The outstanding 2012 Measure G general obligation bonds are as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding June 30, 2013	Bonds Outstanding June 30, 2014
2012	8/1/2042	2.00-3.25%	\$ 55,000,000	\$ 55,000,000	\$ 55,000,000

Payments on the general obligation bonds are made by the District's bond interest and redemption fund with local revenues.

Bonded Debt

The bonds mature through 2043 are as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2015	\$ 4,660,000	\$ 1,950,375	\$ 6,610,375
2016	4,140,000	1,862,375	6,002,375
2017	-	1,820,975	1,820,975
2018	125,000	1,819,100	1,944,100
2019	195,000	1,814,300	2,009,300
2020-2024	2,255,000	8,868,775	11,123,775
2025-2029	5,095,000	8,038,500	13,133,500
2030-2034	8,915,000	6,689,419	15,604,419
2035-2039	13,795,000	4,636,900	18,431,900
2040-2043	15,820,000	1,326,000	17,146,000
Total	\$ 55,000,000	\$ 38,826,719	\$ 93,826,719

**MORGAN HILL UNIFIED SCHOOL DISTRICT
2012 MEASURE G FUND**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 4 - COMMITMENTS AND CONTINGENCIES

Construction commitments

As of June 30, 2014, the Fund had the following commitments approved by the Board of Education for the capital projects.

<u>Capital Project</u>	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
District wide technology infrastructure and hardware upgrade	\$ 17,752,946	August 2015
Charter School of Morgan Hill new MPR room	4,747,260	June 2016
San Martin/Gwinn modernization	4,491,760	August 2015
JAMM/Paradise Valley/Nordstrom roof/Mechanical restroom	4,778,551	September 2014
Walsh modernization	3,772,457	August 2015
Loretta Bonfante Johnson Education Center (Burnett modernization)	100,875	November 2014
	<u>\$ 35,643,849</u>	

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the Fund as of June 30, 2014.

INDEPENDENT AUDITOR'S REPORT

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Governing Board and Citizens Oversight Committee
Morgan Hill Unified School District
Morgan Hill, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the accompanying financial statements of the 2012 Measure G Fund (the Fund), as of and for the year ended June 30, 2014, and have issued our report thereon dated [REDACTED]. As discussed in Note 1, the financial statements present only the Fund and are not intended to present fairly the financial position and results of operations of the Morgan Hill Unified School District (the District) in conformity with accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fund internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**MORGAN HILL UNIFIED SCHOOL DISTRICT
2012 MEASURE G FUND**

**FINANCIAL STATEMENT FINDINGS
JUNE 30, 2014**

None reported.

**MORGAN HILL UNIFIED SCHOOL DISTRICT
2012 MEASURE G
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2014**

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

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MORGAN HILL UNIFIED SCHOOL DISTRICT

**2012 MEASURE G FUND
PERFORMANCE AUDIT**

JUNE 30, 2014

**MORGAN HILL UNIFIED SCHOOL DISTRICT
2012 MEASURE G FUND**

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JUNE 30, 2014**

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INDEPENDENT AUDITOR'S REPORT ON PERFORMANCE

Governing Board and Citizens Oversight Committee
Morgan Hill Unified School District
Morgan Hill, California

We were engaged to conduct a performance audit of the 2012 Measure G Fund (the Fund) of the Morgan Hill Unified School District (the District) for the year ended June 30, 2014.

We conducted this performance audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusion based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives.

Our audit was limited to the objectives listed within the report which includes determining the Fund's compliance with the performance requirements as referred to in Proposition 39 and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution. Management is responsible for compliance with those requirements.

In planning and performing our performance audit, we obtained an understanding of the Fund's internal control in order to determine if the internal controls were adequate to help ensure the Fund's compliance with the requirements of Proposition 39 and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

The results of our tests indicated that the District expended the 2012 Measure G funds only for the specific projects approved by the voters, in accordance with Proposition 39 and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution.

Palo Alto, California
_____, 2014

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MORGAN HILL UNIFIED SCHOOL DISTRICT 2012 MEASURE G FUND

JUNE 30, 2014

AUTHORITY FOR ISSUANCE

The Measure G Bonds (the Bonds) are issued pursuant to the Constitution and laws of the State of California (the State), including the provisions of Chapters 1 and 1.5 of Part 10 of the California Education Code, the provision of Article 4.5 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, and other applicable provisions of law.

The District received authorization at an election held on November 6, 2012, to issue bonds of the District in an aggregate principal amount not to exceed \$198,250,000. The Measure was approved by at least 55 percent of the votes. The first series of the authorized bonds, Series A, in the amount of \$55,000,000, were sold on February 21, 2013.

PURPOSE OF ISSUANCE

The Bonds are being issued to improve student access to computers and modern technology and provide a quality education, repair or replace leaky roofs, upgrade old plumbing, heating and cooling systems, classrooms and outdated restrooms, upgrade fire safety, maximize energy efficiency, improve handicapped accessibility, and modernize, construct and acquire classrooms, equipment, sites and facilities.

AUTHORITY FOR THE AUDIT

On November 7, 2000, California voters approved Proposition 39, the Smaller Classes, Safer Schools and Financial Accountability Act. Proposition 39 amended portions of the California Constitution to provide for the issuance of general obligation bonds by school districts, community college districts, or county offices of education, "for the construction, reconstruction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of rental property for school facilities", upon approval by 55 percent of the electorate. In addition to reducing the approval threshold from two-thirds to 55 percent, Proposition 39 and the enacting legislation (AB 1908 and AB 2659) requires the following accountability measures as codified in Education Code sections 15278-15282:

1. Requires that the proceeds from the sale of the bonds be used only for the purposes specified in Article XIII A, Section 1(b)(3)(C) of the California Constitution, and not for any other purpose, including teacher and administrator salaries and other school operating expenses.
2. The school district must list the specific school facilities projects to be funded in the ballot measure, and must certify that the governing board has evaluated safety, class size reduction and information technology needs in developing the project list.
3. Requires the school district to appoint a citizen's oversight committee.
4. Requires the school district to conduct an annual independent financial audit and performance audit in accordance with the *Government Auditing Standards* issued by the Comptroller General of the United States of the bond proceeds until all of the proceeds have been expended.
5. Requires the school district to conduct an annual independent performance audit to ensure that the funds have been expended only on the specific projects listed.

**MORGAN HILL UNIFIED SCHOOL DISTRICT
2012 MEASURE G FUND**

JUNE 30, 2014

OBJECTIVES OF THE AUDIT

1. Determine whether expenditures charged to the Fund are consistent with the project list approved by the voters through the approval of 2012 Measure G.
2. Determine whether salary transactions, charged to the Fund are in support of the approved project list and not for district general administration or operations.

SCOPE OF THE AUDIT

The scope of our performance audit covered the period of July 1, 2013 to June 30, 2014. The population of expenditures tested included all object and project codes associated with the bond projects. The propriety of expenditures for capital projects and maintenance projects funded through other State or local funding sources, other than proceeds of the bonds, were not included within the scope of the audit. Expenditures incurred subsequent to June 30, 2014, were not reviewed or included within the scope of our audit or in this report.

PROCEDURES PERFORMED

We obtained the general ledger and the project expenditure reports prepared by the District for the period July 1, 2013 through June 30, 2014. From the population of expenditures, we obtained the invoices and other supporting documentation for a sample of expenditures to ensure compliance with the requirements of Article XIII A, Section 1(b)(3)(C) of the California Constitution and the approved project list authorized by 2012 Measure G. We performed the following procedures:

1. We selected a sample of expenditures for the period starting July 1, 2013 and ending June 30, 2014, and reviewed supporting documentation to ensure that such funds were properly expended on the specific projects listed in the ballot text.
2. Our sample included 43 transactions totaling \$9,072,275. This represents 68 percent of the \$13,427,008 of total expenditures.
3. We verified that proceeds from the sale of bonds were only expended in support of construction, renovation, furnishing and equipping of District facilities constituting authorized 2012 Measure G projects.
4. We noted there is no administrator salary expenditure charged to the bond project during the current year.

CONCLUSION

The results of our tests indicated that, in all significant respects, the District has properly accounted for the expenditures held in the Fund and that such expenditures were made for authorized projects as stipulated in 2012 Measure G.

**MORGAN HILL UNIFIED SCHOOL DISTRICT
2012 MEASURE G GENERAL OBLIGATION BOND FUND**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2014**

None reported.

**MORGAN HILL UNIFIED SCHOOL DISTRICT
2012 MEASURE G GENERAL OBLIGATION BOND FUND**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2014**

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