

HILLSBOROUGH CITY SCHOOL DISTRICT
COUNTY OF SAN MATEO
HILLSBOROUGH, CALIFORNIA

AUDIT REPORT

JUNE 30, 2019



Chavan & Associates, LLP
Certified Public Accountants
1475 Saratoga Ave, Suite 180
San Jose, CA 95129

Hillsborough City School District
County of San Mateo

Table of Contents

TITLE	PAGE
FINANCIAL SECTION:	
Independent Auditor's Report	1 - 3
Management's Discussion and Analysis	5 - 14
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position	16
Statement of Activities	17
Fund Financial Statements:	
Governmental Funds Balance Sheet	18
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	19
Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances.....	20
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities.....	21
Statement of Fiduciary Net Position - Fiduciary Funds	22
Notes to the Basic Financial Statements.....	24 - 59
REQUIRED SUPPLEMENTARY INFORMATION:	
Schedule of Revenue, Expenditures and Changes in Fund Balances - Budget and Actual (GAAP) - General Fund	61
Schedule of CalPERS Pension Plan Contributions	62
Schedule of CalPERS Proportionate Share of Net Pension Liabilities	63
Schedule of STRS Pension Plan Contributions.....	64
Schedule of STRS Proportionate Share of Net Pension Liabilities.....	65
Schedule of Changes in Total OPEB Liability.....	66
SUPPLEMENTARY INFORMATION:	
Combining Statements - Nonmajor Funds:	
Combining Balance Sheet - Nonmajor Governmental Funds.....	69
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds.....	70
Compliance Section:	
Organization (Unaudited).....	72
Schedule of Average Daily Attendance.....	73
Schedule of Instructional Time	74
Schedule of Charter Schools (Unaudited)	75
Schedule of Financial Trends and Analysis (Unaudited)	76
Reconciliation of the Annual Financial and Budget Report (SACS) to the Audited Financial Statements	77
Notes to Compliance Section	78

Hillsborough City School District
County of San Mateo

Table of Contents

OTHER 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>	80 - 81
Independent Auditor’s Report on Compliance with Requirements that Could Have a Direct and Material Effect on State Programs.....	82 - 84

FINDINGS AND RECOMMENDATIONS:

Schedule of Findings and Questioned Costs	86 - 87
Status of Prior Year Findings and Recommendations.....	88

**FINANCIAL
SECTION**



INDEPENDENT AUDITOR'S REPORT

The Honorable Board of Trustees
Hillsborough City School District
Hillsborough, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hillsborough City School District (the District), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District'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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2019 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.

Emphasis of a Matter

Deficit Net Position

As of June 30, 2019, the District's net position in its Government-wide financial statements was at a deficit mostly because of the long-term pension liabilities and deferrals as reported in Note 7 and Note 8. Our opinion is not modified with respect to this matter. The District did not report any direct borrowings and direct placements as of June 30, 2019.

Other Matters

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the District adopted new accounting guidance, GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The District did not report any direct borrowings and direct placements as of June 30, 2019. Our opinion has not been modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, Schedule of Revenue, Expenditures and Changes in Fund Balances - Budget and Actual (GAAP) - General Fund, schedule of CalPERS pension plan contributions, schedule of CalPERS proportionate share of net pension liabilities, schedule of STRS pension plan contributions, schedule of STRS proportionate share of net pension liabilities, and schedule of changes in total OPEB liability, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual nonmajor fund financial statements, as required by the Governmental Accounting Standards Board; organization schedule, schedule of average daily attendance, schedule of instructional time, schedule of charter schools, schedule of financial trends and analysis and the reconciliation of the annual Financial and Budget report (SACS) to the audited financial statements, as required by the *2018-19 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, schedule of average daily attendance, schedule of instructional time, and the reconciliation of the Annual Financial and Budget Report (SACS) to the audited financial statements are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, schedule of average daily attendance, schedule of instructional time and the reconciliation of the Annual Financial and Budget report (SACS) to the audited financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The organization schedule, schedule of charter schools and the schedule of financial trends and analysis have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2019 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 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.

C & A LLP

December 4, 2019
San Jose, California

Management's Discussion and Analysis

Hillsborough City School District

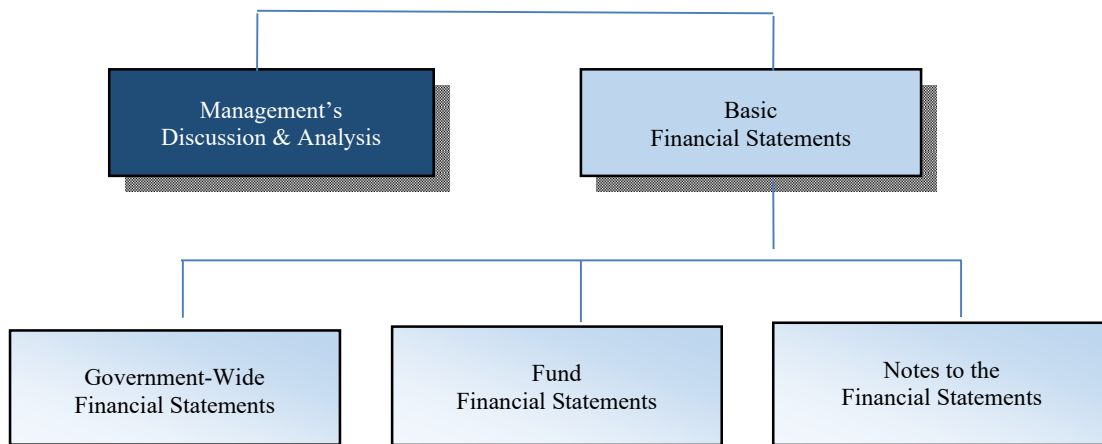
Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2019

INTRODUCTION

The Management's Discussion and Analysis (MD&A) is a required section of the District's annual financial report, as shown in the overview below. The purpose of the MD&A is to present a discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2019. This report will (1) focus on significant financial issues, (2) provide an overview of the District's financial activity, (3) identify changes in the District's financial position, (4) identify any individual fund issues or concerns, and (5) provide descriptions of significant asset and debt activity.

This information, presented in conjunction with the annual Basic Financial Statements, is intended to provide a comprehensive understanding of the District's operations and financial standing.

Required Components of the Annual Financial Report



FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year ended June 30, 2019 were as follows:

- Total net position decreased by \$4,288,137, or -10.82%, which included a decrease in unrestricted net position of \$5,372,559, from June 30, 2018 to June 30, 2019, mainly due to increases in deferred inflows of resources related to the pension liabilities and increases in restricted net position.
- The District recorded deferred outflows of resources of \$17,557,497 and deferred inflows of resources of \$2,505,066 as required by GASB 68 for pension and GASB 75 for OPEB accounting and reporting. Deferred outflows of resources are technically not assets but increase the Statement of Net Position similar to an asset and deferred inflows of resources are technically not liabilities but decrease the Statement of Net Position similar to liabilities. See Note 1 in the notes to financial statements for a definition.
- The District had \$38,926,739 in government-wide expenses which is 112% of total government-wide revenues. Program specific revenues in the form of operating grants and contributions and charges for services accounted for \$3,441,366, or 9.94%, of the total revenues of \$34,638,602.
- General revenue of \$31,197,236 which includes property taxes, unrestricted federal and state grants and LCFF sources, was 90.06% of total revenues in 2019 versus 93.96% in 2018.

Hillsborough City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2019

- The fund balances of all governmental funds increased by \$3,112,631, which is a 30.8% increase from 2018.
- Total governmental fund revenues and expenditures totaled \$34,638,601 and \$33,644,536, respectively.

USING THE ANNUAL REPORT

This annual report consists of a series of basic financial statements and notes to those statements. These statements are organized so the reader can understand the District as an entire operating entity. The statements provide an increasingly detailed look at specific financial activities.

The Statement of Net Position and Statement of Activities comprise the government-wide financial statements and provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those 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 District's most significant funds with all other non-major funds presented in total in one column. In the case of the District, the General Fund is by far the most significant fund. The basic financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

OVERVIEW OF THE FINANCIAL STATEMENTS

The full annual financial report is a product of three separate parts: the basic financial statements, supplementary information, and this section, the Management's Discussion and Analysis. The three sections together provide a comprehensive financial overview of the District. The basic financials are comprised of two kinds of statements that present financial information from different perspectives, government-wide and fund statements.

- Government-wide financial statements, which comprise the first two statements, provide both short-term and long-term information about the District's overall financial position.
- Individual parts of the District, which are reported as fund financial statements, focus on reporting the District's operations in more detail. These fund financial statements comprise the remaining statements.
- Notes to the financials, which are included in the financial statements, provide more detailed data and explain some of the information in the statements. The required supplementary information section provides further explanations and provides additional support for the financial statements.

Hillsborough City School District

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2019

GOVERNMENT-WIDE FINANCIAL STATEMENTS - STATEMENT OF NET POSITION AND THE STATEMENT OF ACTIVITIES

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during the fiscal year 2018 - 2019?" The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting practices used by most private-sector companies. This basis of accounting takes into account all of the current year revenues and expenses regardless of when cash is received or paid.

These two statements report the District's net position and changes in net position. This change in net position is important because it tells the reader that, for the District as a whole, the financial position of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, and some not. Non-financial factors include the District's property tax base, current property tax laws in California restricting revenue growth, facility conditions, required educational programs and other factors.

In the Statement of Net Position and the Statement of Activities, the District reports governmental activities. Governmental activities are the activities where most of the District's programs and services are reported including, but not limited to, instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities. The District does not have any business type activities.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The analysis of the District's major funds begins with the Balance Sheet. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. These fund financial statements focus on each of the District's most significant funds. The District's major governmental funds are the General Fund, Building Fund, and the Bond Interest and Redemption Fund.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in the future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Hillsborough City School District

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2019

THE DISTRICT AS A WHOLE

Recall that the Statement of Net Position provides the perspective of the District as a whole. Table 1 provides a summary of the District's net position as of June 30, 2019 as compared to June 30, 2018:

During the year, deferred outflows of resources decreased by 5.65%, deferred inflows of resources increased by 55.09%, and long-term liabilities increased by 2.31% because of changes in benefit obligations and actuarial assumptions related to GASB 68 and GASB 75.

Table 1 - Summary of Statement of Net Position				
Description	2019	2018	Change	Percentage Change
Assets				
Current Assets	\$ 13,883,489	\$ 10,839,732	\$ 3,043,757	28.08%
Capital Assets	47,566,113	49,910,667	(2,344,554)	-4.70%
Total Assets	\$ 61,449,602	\$ 60,750,399	\$ 699,203	1.15%
Total Deferred Outflows of Resources	\$ 17,557,497	\$ 18,549,495	\$ (991,998)	-5.65%
Liabilities				
Current Liabilities	\$ 913,199	\$ 993,073	\$ (79,874)	-8.04%
Long-term Liabilities	119,490,322	116,795,032	2,695,290	2.31%
Total Liabilities	\$ 120,403,521	\$ 117,788,105	\$ 2,615,416	2.22%
Total Deferred Inflows of Resources	\$ 2,505,066	\$ 1,125,140	\$ 1,379,926	55.09%
Net Position				
Net Investment in Capital Assets	\$ (10,586,215)	\$ (9,703,160)	\$ (883,055)	-9.10%
Restricted	5,108,387	3,140,910	1,967,477	62.64%
Unrestricted	(38,423,660)	(33,051,101)	(5,372,559)	-16.26%
Total Net Position	\$ (43,901,488)	\$ (39,613,351)	\$ (4,288,137)	-10.82%

Hillsborough City School District

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2019

Table 2 shows the changes in net position for fiscal year 2019 as compared to 2018:

Table 2 - Summary of Changes in Statement of Activities				
Description	2019	2018	Change	Percentage Change
Revenues				
Program revenues	\$ 3,441,366	\$ 1,930,773	\$ 1,510,593	78.24%
General revenues:				
Property taxes	25,941,157	24,815,236	1,125,921	4.54%
Grants and entitlements - unrestricted	975,807	942,911	32,896	3.49%
Other	4,280,272	4,276,716	3,556	0.08%
Total Revenues	34,638,602	31,965,636	2,672,966	8.36%
Program Expenses				
Instruction	24,070,933	22,598,223	1,472,710	6.52%
Instruction-related services	3,662,832	3,261,730	401,102	12.30%
Pupil services	1,149,256	1,117,009	32,247	2.89%
General administration	2,512,855	2,082,347	430,508	20.67%
Plant services	2,988,198	2,844,745	143,453	5.04%
Facility acquisition and construction	274,010	55,711	218,299	100%
Community services	301,270	281,105	20,165	7.17%
Other outgo	144,410	94,292	50,118	53.15%
Interest on long-term debt	3,822,975	3,637,548	185,427	5.10%
Total Expenses	38,926,739	35,972,710	2,954,029	8.21%
Change in Net Position	(4,288,137)	(4,007,074)	(281,063)	-7.01%
Begininng Net Position	(39,613,351)	(33,403,444)	(6,209,907)	-18.59%
Prior Period Adjustments	-	(2,202,833)	2,202,833	100.00%
Ending Net Position	\$ (43,901,488)	\$ (39,613,351)	\$ (4,288,137)	-10.82%

The District's expenses for instructional services was 71% of total expenses in 2018-19 as compared to 72% in 2017-18. The purely administrative activities of the District accounted for 6% of total costs in 2018-19 as compared to 6% in 2017-18. Interest on long-term debt represented 10% of total expenses in 2018-19 as compared to 10% in 2017-18. Total expenses were 112% of revenue in 2018-19 versus 113% in 2017-18, which is reflected in the deficit change in net position of \$4,288,137 in 2018-19 versus a deficit change in net position of \$4,007,074 in 2017-18. In regard to revenue, program revenues were 10% of total revenues in 2018-19 and 6% of total revenues in 2017-18.

Hillsborough City School District

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2019

GOVERNMENTAL ACTIVITIES

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows the net cost of services as compared to the prior fiscal year. That is, it identifies the cost of these services supported by general revenues for the government-wide statements (not the General Fund).

Table 3 - Net Cost of Services				
Description	2019	2018	Change	Percentage Change
Instruction	\$ 21,506,843	\$ 21,080,420	\$ 426,423	2.0%
Instruction-related services	3,382,539	3,093,396	289,143	9.3%
Pupil services	1,046,081	1,064,471	(18,390)	-1.7%
General administration	2,428,214	2,061,667	366,547	17.8%
Plant services	2,846,657	2,747,662	98,995	3.6%
Facility acquisition and constructi	274,010	55,711	218,299	391.8%
Community services	277,345	270,666	6,679	2.5%
Other outgo	(99,291)	30,396	(129,687)	-426.7%
Interest on long-term debt	3,822,975	3,637,548	185,427	5.1%
Total Net Cost of Services	\$ 35,485,373	\$ 34,041,937	\$ 1,443,436	4.24%

Instruction expenditures include activities directly dealing with the teaching of pupils.

Instruction-related Services include the activities involved with assisting staff with the content and process of educating students.

Pupil Services include guidance and counseling, psychological, health, speech and testing services, transporting students, as well as preparing, delivering, and serving meals to students.

General Administration reflects expenditures associated with the administrative and financial supervision of the School District. Typical functions would include the Board of Trustees and Superintendent, Human Resources, Data Processing and Business Services.

Plant Services involve keeping the school grounds, buildings, and equipment in effective working condition.

Community services represent the expenditures associated with local recreation programs and activities.

Other Outgo includes tuitions and transfers of resources between the District and other educational agencies for services provided to District students.

Hillsborough City School District

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2019

THE DISTRICT'S FUNDS

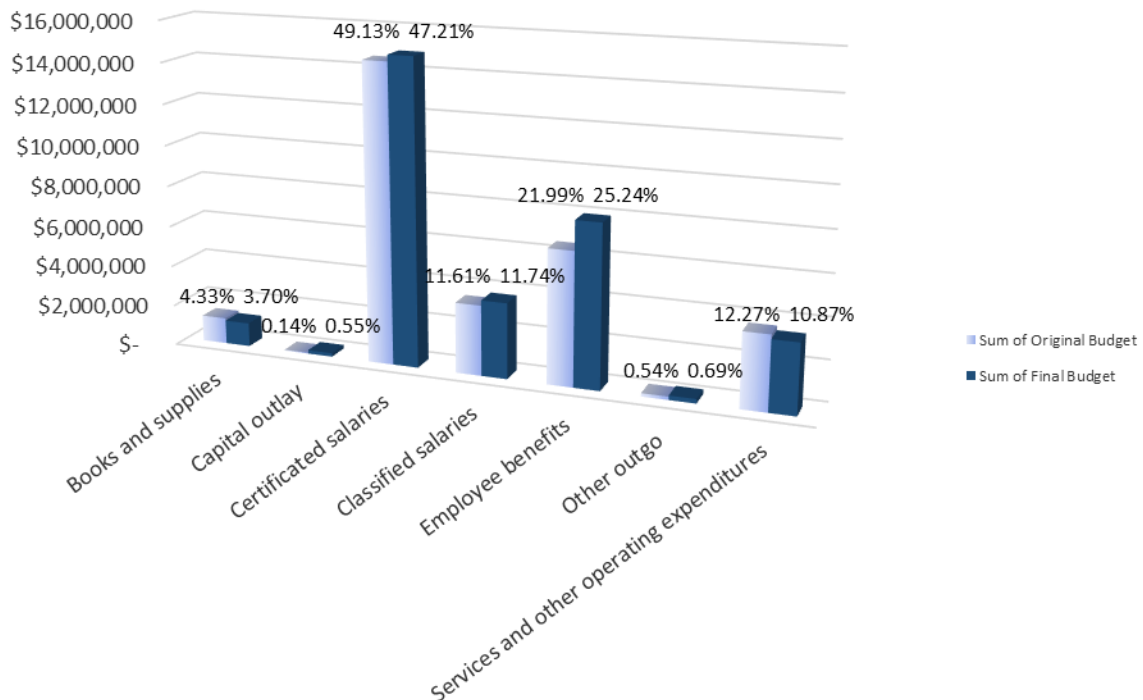
Table 4 provides an analysis of the District's fund balances and the total change in fund balances from the prior year.

Table 4 - Summary of Fund Balances				
Description	2019	2018	Change	Percentage Change
General Fund	\$ 8,140,742	\$ 7,028,749	\$ 1,111,993	15.8%
Building Fund	1,837,348	-	1,837,348	100.0%
Bond Interest and Redemption Fund	3,005,469	2,733,189	272,280	10.0%
Nonmajor Funds	244,731	353,721	(108,990)	-30.8%
Total Fund Balances	\$13,228,290	\$10,115,659	\$ 3,112,631	30.8%

FINANCIAL ANALYSIS OF THE GENERAL FUND AND BUDGETING HIGHLIGHTS

The District's budget is prepared according to California law and in the modified accrual basis of accounting. During the course of the 2018-19 fiscal year, the District revised its General Fund budget twice, at 1st Interim and 2nd interim. The overall increase in expenditures was due to increases in employee salaries, benefits and books and supplies. The General Fund budget basis revenue increased by \$1,868,695 from original to final budgets. The following summarizes the District's budgeted expenditures in the General Fund.

Chart 1: General Fund Budgeted Expenditures



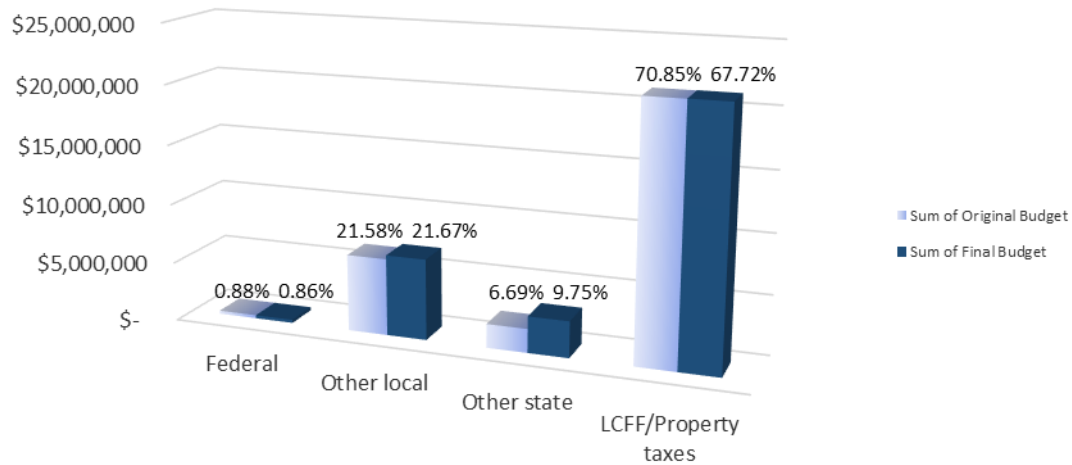
Hillsborough City School District

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2019

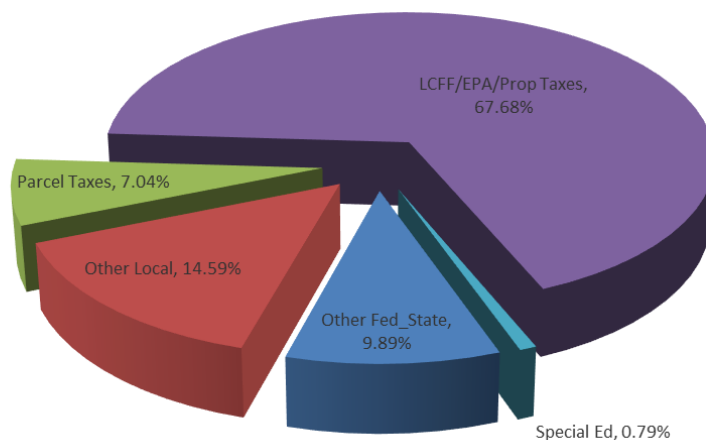
The following summarizes the District's budgeted revenue in the General Fund:

Chart 2: General Fund Budgeted Revenues



The District is community-funded basic aid, which means that the District relies on local property taxes rather than State aid for revenue. Total General Fund revenues for 2018-19 increased 9% from the prior year to \$31,508,610. Total LCFF sources increased by \$1,029,523 from prior year, almost all from local property taxes, which accounts for \$1,023,907 of the increase. Federal resources for Special Education declined by \$3,826. Total other federal and state resources show an increase of \$1,225,330 from prior year, of which \$1,214,713 is from the change of the District's STRS on behalf amount \$1,180,663 in 2017-18 to STRS and PERS on behalf amount \$2,395,376 in 2018-19, as a result of the Senate Bill 90 appropriation. In other words, the District's actual other federal and state resources decreased by \$6,791 from prior year. Locally generated revenues amounted to 89% of the District's total revenues. It's important to note that the following pie charts only include fund 01, the general operating fund of the District, whereas the General Fund as included in the audited basic financial statements, required supplementary information, supplementary information and state compliance information presented elsewhere in this report, includes fund 01, fund 17 (Special Reserve fund for Other Than Capital Outlay Projects) and fund 20 (OPEB Fund) as required by GASB 54.

Chart 3: General Fund Revenues by Object
(Excluding Special Reserve Fund and OPEB Fund)

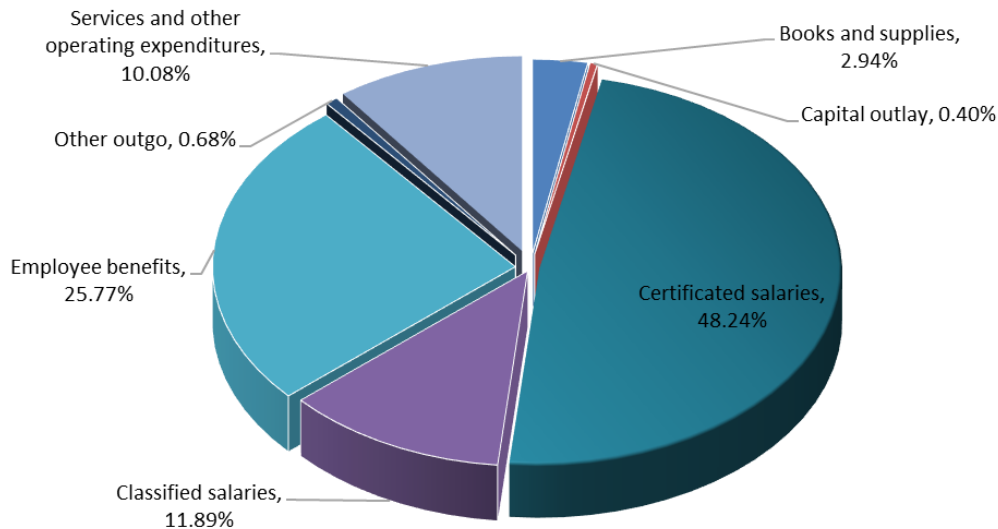


Hillsborough City School District

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2019

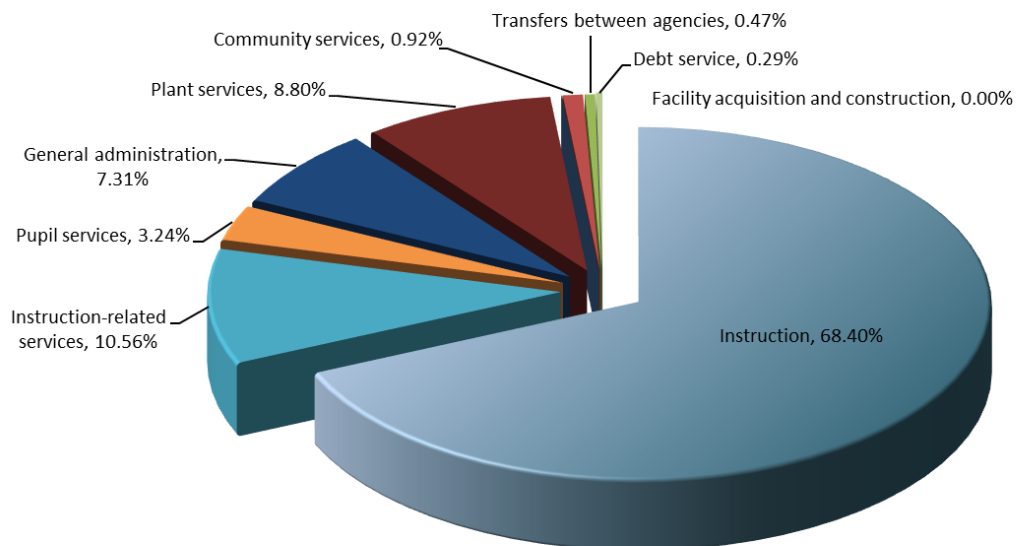
Expenditures increased 9% over the prior year. As is common with virtually all school districts, the majority of expenditures in the General Fund were for salaries and benefits. Of the \$30,476,617 expended during 2018-19, 86% was spent on salaries and benefits. See the charts below for a breakdown of general fund expenditures by Object.

Chart 4: General Fund Expenditures by Object
(Excluding Special Reserve Fund and OPEB Fund)



As seen in the chart below, the District spent 79% of total general fund expenditures on instruction and instruction-related activities.

Chart 5: General Fund Expenditures by Function
(Excluding Special Reserve Fund and OPEB Fund)



Hillsborough City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2019

CAPITAL ASSETS

Table 5 shows June 30, 2019 balances as compared to June 30, 2018.

Table 5 - Summary of Capital Assets Net of Depreciation				
Description	2019	2018	Change	Percentage Change
Land	\$ 228,711	\$ 228,711	\$ -	0.00%
Land Improvements	355,032	431,464	(76,432)	-17.71%
Buildings and Improvements	46,468,783	48,651,173	(2,182,390)	-4.49%
Equipment	513,587	599,319	(85,732)	-14.30%
Total Capital Assets - Net	\$47,566,113	\$ 49,910,667	\$ (2,344,554)	-4.70%

LONG TERM DEBT

Table 6 summarizes the percent changes in Long-term Debt over the past two years.

Table 6 - Summary of Long-term Liabilities				
Description	2019	2018	Change	Percentage Change
General Obligation Bonds	\$ 83,883,908	\$ 81,099,917	\$ 2,783,991	3.43%
Net Pension Liabilities	30,420,292	30,954,200	(533,908)	-1.72%
Total OPEB Liability	4,947,192	4,516,719	430,473	9.53%
Compensated Absences	238,930	224,196	14,734	6.57%
Total Long-term Liabilities	\$119,490,322	\$116,795,032	\$ 2,695,290	2.31%

FACTORS BEARING ON THE DISTRICT'S FUTURE

As a basic aid district, we must always be on guard to any hint of State action to claim property tax revenues over the LCFF. The cost to fight this threat takes time and effort and detracts from educating children. Furthermore, it creates an unhealthy environment where children and parents are worried about cuts to educational programs and staff is worried about job security. The District must always be in a position to recover from any negative impact imposed by the State and has always taken the conservative approach to budgeting and having sufficient reserves.

The District is ever aware of its reliance on local support. Of total revenues, 14% is voluntarily generated (above any assessed taxes) from parents and the community. This revenue source must continue in order to maintain programs as they currently exist.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, parents, 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 additional financial information, please contact the District's Business Office, Hillsborough City School District, 300 El Cerrito Avenue, Hillsborough, CA 94010.

Basic Financial Statements

Hillsborough City School District

Statement of Net Position

June 30, 2019

	Governmental Activities
Assets	
Cash and investments	\$ 13,108,209
Receivables	637,875
Prepaid expenses	137,405
Capital assets - net	47,566,113
Total Assets	<u>\$ 61,449,602</u>
Deferred Outflows of Resources	
Pension adjustments	\$ 8,274,286
OPEB adjustments	168,187
Deferred loss on early retirement of long-term debt	9,115,024
Total Deferred Outflows of Resources	<u>\$ 17,557,497</u>
Liabilities	
Accounts payable	\$ 596,866
Unearned revenue	58,333
Accrued interest	258,000
Long-term liabilities:	
Due within one year	2,313,874
Due after one year	117,176,448
Total Liabilities	<u>\$ 120,403,521</u>
Deferred Inflows of Resources	
Pension adjustments	\$ 2,505,066
Total Deferred Inflows of Resources	<u>\$ 2,505,066</u>
Net Position	
Net investment in capital assets	\$ (10,586,215)
Restricted for:	
Educational programs	172,692
Debt service	3,005,469
Capital projects	1,925,004
Cafeteria programs	5,222
Unrestricted	(38,423,660)
Total Net Position	<u>\$ (43,901,488)</u>

The notes to basic financial statements are an integral part of this statement

Hillsborough City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2019

		Program Revenues		Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Instruction	\$ 24,070,933	\$ 119,200	\$ 2,444,890	\$ (21,506,843)
Instruction-related services:				
Supervision of instruction	1,649,806	7,188	130,411	(1,512,207)
Instruction library, media and technology	181,129	-	9,814	(171,315)
School site administration	1,831,897	42	132,838	(1,699,017)
Pupil services:				
Home-to-school transportation	50,589	578	6,530	(43,481)
Food services	13,972	-	-	(13,972)
All other pupil services	1,084,695	48	96,019	(988,628)
General administration:				
Data processing	555,751	-	6,974	(548,777)
All other general administration	1,957,104	-	77,667	(1,879,437)
Plant services	2,988,198	3,497	138,044	(2,846,657)
Facility acquisition and construction	274,010	-	-	(274,010)
Community services	301,270	-	23,925	(277,345)
Other outgo	144,410	27,127	216,574	99,291
Interest on long-term debt	3,822,975	-	-	(3,822,975)
Total governmental activities	<u>\$ 38,926,739</u>	<u>\$ 157,680</u>	<u>\$ 3,283,686</u>	<u>(35,485,373)</u>
General revenues:				
Taxes and subventions:				
Taxes levied for general purposes				20,857,258
Taxes levied for debt service				2,868,533
Taxes levied for other specific purposes				2,215,366
Federal and state aid not restricted to specific purposes				975,807
Interest and investment earnings				208,509
Miscellaneous				4,071,763
Total general revenues				<u>31,197,236</u>
Change in net position				(4,288,137)
Net position beginning				<u>(39,613,351)</u>
Net position ending				<u>\$ (43,901,488)</u>

The notes to basic financial statements are an integral part of this statement

Hillsborough City School District

Governmental Funds

Balance Sheet

June 30, 2019

	General Fund	Building Fund	Bond Interest & Redemption Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and investments	\$ 7,969,256	\$ 1,831,210	\$ 2,989,844	\$ 317,899	\$ 13,108,209
Accounts receivable	605,040	11,132	15,625	6,078	637,875
Prepaid expenses	137,405	-	-	-	137,405
Total Assets	\$ 8,711,701	\$ 1,842,342	\$ 3,005,469	\$ 323,977	\$ 13,883,489
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 570,959	\$ 4,994	\$ -	\$ 20,913	\$ 596,866
Unearned revenue	-	-	-	58,333	58,333
Total Liabilities	570,959	4,994	-	79,246	655,199
Fund balances:					
Nonspendable:					
Revolving fund	5,000	-	-	-	5,000
Prepaid expenditures	137,405	-	-	-	137,405
Restricted:					
Educational programs	172,692	-	-	-	172,692
Cafeteria programs	-	-	-	5,222	5,222
Debt service	-	-	3,005,469	-	3,005,469
Capital projects	-	1,817,582	-	107,422	1,925,004
Committed:					
Deferred maintenance	-	19,766	-	-	19,766
Educational programs	565,027	-	-	-	565,027
Other postemployment benefits	1,666,198	-	-	-	1,666,198
Assigned:					
Deferred maintenance	-	-	-	132,087	132,087
Unassigned:					
Reserve for economic uncertainties	1,830,697	-	-	-	1,830,697
Unappropriated	3,763,723	-	-	-	3,763,723
Total Fund Balances	8,140,742	1,837,348	3,005,469	244,731	13,228,290
Total Liabilities and Fund Balances	\$ 8,711,701	\$ 1,842,342	\$ 3,005,469	\$ 323,977	\$ 13,883,489

The notes to basic financial statements are an integral part of this statement

Hillsborough City School District
Reconciliation of the Governmental Funds
Balance Sheet to the Statement of Net Position
June 30, 2019

Total fund balances - governmental funds		\$ 13,228,290
Capital assets for governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$81,460,465 and the accumulated depreciation is \$33,894,352.		47,566,113
In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The accrued interest at the end of the period was:		(258,000)
The differences between projected and actual amounts in pension and OPEB plans are not included in the plans actuarial study until the next fiscal year and are reported as deferred outflows or inflows of resources in the statement of net position as follows:		
Pension adjustments:		
Difference between actual and expected experience		154,721
Difference between actual and expected earnings		(866,625)
Change in assumptions		4,363,721
Differences in proportionate share of contributions		3,797
Changes in employer's proportionate shares		(871,517)
Contribution subsequent to measurement date		2,985,123
OPEB adjustments:		
OPEB change in assumptions		168,187
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	\$ 83,883,908	
Loss on early retirement of long-term debt	(9,115,024)	
Net pension liabilities	30,420,292	
Total OPEB liability	4,947,192	
Compensated absences	238,930	
		<u>(110,375,298)</u>
Total net position - governmental activities		<u>\$ (43,901,488)</u>

The notes to basic financial statements are an integral part of this statement

Hillsborough City School District
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Fiscal Year Ended June 30, 2019

	General Fund	Building Fund	Bond Interest & Redemption Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:					
LCFF/Propert Taxes	\$ 21,299,567	\$ -	\$ -	\$ -	\$ 21,299,567
Federal	267,918	-	-	-	267,918
Other state	3,095,672	-	5,012	-	3,100,684
Other local	6,845,453	19,766	2,937,200	168,013	9,970,432
Total revenues	31,508,610	19,766	2,942,212	168,013	34,638,601
Expenditures:					
Instruction	20,847,226	-	-	-	20,847,226
Instruction-related services:					
Supervision of instruction	1,450,912	-	-	-	1,450,912
Instruction library, media and technology	159,034	-	-	-	159,034
School site administration	1,608,411	-	-	-	1,608,411
Pupil services:					
Home-to-school transportation	34,089	-	-	-	34,089
Food services	-	-	-	13,235	13,235
All other pupil services	954,631	-	-	-	954,631
General administration:					
Data processing	494,098	-	-	-	494,098
All other general administration	1,733,654	-	-	-	1,733,654
Plant services	2,681,921	-	-	82,130	2,764,051
Facility acquisition and construction	-	172,372	-	101,638	274,010
Community services	280,843	-	-	-	280,843
Transfers between agencies	144,410	-	-	-	144,410
Debt service:					
Principal	50,534	-	2,095,635	-	2,146,169
Interest and fees	36,854	95,000	607,909	-	739,763
Total expenditures	30,476,617	267,372	2,703,544	197,003	33,644,536
Excess (deficiency) of revenues over (under) expenditures	1,031,993	(247,606)	238,668	(28,990)	994,065
Other financing sources (uses):					
Transfers in	80,000	-	-	-	80,000
Transfers out	-	-	-	(80,000)	(80,000)
Proceeds from bond issuance	-	2,084,954	33,612	-	2,118,566
Total other financing sources (uses)	80,000	2,084,954	33,612	(80,000)	2,118,566
Changes in fund balances	1,111,993	1,837,348	272,280	(108,990)	3,112,631
Fund balances beginning	7,028,749	-	2,733,189	353,721	10,115,659
Fund balances ending	\$ 8,140,742	\$ 1,837,348	\$ 3,005,469	\$ 244,731	\$ 13,228,290

The notes to basic financial statements are an integral part of this statement

Hillsborough City School District
Reconciliation of the Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balance
to the Statement of Activities
For the Fiscal Year Ended June 30, 2019

Total net change in fund balances - governmental funds	\$ 3,112,631
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital assets additions of \$147,400 was less than depreciation expense of \$2,491,954 in the period.	(2,344,554)
The governmental funds report long-term debt proceeds as an other financing source, while repayment of debt principal is reported as an expenditure. Also, governmental funds report the effect of prepaid issuance costs and premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. The net effect of these differences in the treatment of long-term debt and related items is as follows:	
General obligation bond principal	\$ 2,095,635
Proceeds from bond issuances	(2,118,566)
Bond premiums	148,725
Amortization of loss on refunding	(333,152)
Accreted Interest	(2,909,785)
	(3,117,143)
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	11,000
In governmental funds, actual contributions to pension plans are reported as expenditures in the year incurred. However, in the government-wide statement of activities, only the current year pension expense as noted in the plans' valuation reports is reported as an expense, as adjusted for deferred inflows and outflows of resources.	(1,673,051)
In the statement of activities, compensated absences are measured by the amount earned during the year. In governmental funds, however, expenditures for those items are measured by the amount of financial resources used (essentially the amounts paid). This year vacation earned was less than vacation used.	(14,734)
In governmental funds, actual contributions to OPEB plans are reported as expenditures in the year incurred. However, in the government-wide statement of activities, only the current year OPEB expense as noted in the plan's valuation reports is reported as an expense, as adjusted for deferred inflows and outflows of resources.	(262,286)
Change in net position of governmental activities	<u>\$ (4,288,137)</u>

The notes to basic financial statements are an integral part of this statement

Hillsborough City School District
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2019

	Student Body Agency Fund
Assets	
Cash on hand and in banks	\$ 61,264
Total Assets	<u>\$ 61,264</u>
Liabilities	
Due to student groups	\$ 61,264
Total Liabilities	<u>\$ 61,264</u>

The notes to basic financial statements are an integral part of this statement

Notes to the Basic Financial Statements

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

1. SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Principles

Hillsborough City School District (the "District") accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's *California School Accounting Manual*. The account policies of the District conform to accounting principles generally accepted in the United States of America as prescribed by the U. S. Governmental Accounting Standards Board ("GASB") and the American Institute of Certified Public Accountants ("AICPA").

B. Reporting Entity

The Hillsborough City School District was organized on August 14, 1911 under the laws of the State of California. The District is the level of government primarily accountable for activities related to public education. The governing authority consists of five elected officials who, together, constitute the Board of Trustees. The District's combined financial statements include the accounts of all its operations. The basic, but not the only, criterion for including a governmental department, agency, institution, commission, public authority, or other governmental organization in a governmental unit's reporting entity for general purpose financial reports is the ability of the governmental unit's elected officials to exercise oversight responsibility over such agencies. Oversight responsibility implies that one governmental unit is dependent on another and that the dependent unit should be reported as part of the other. Oversight responsibility is derived from the governmental unit's power and includes, but is not limited to:

- Financial interdependency
- Selection of governing authority
- Designation of management
- Ability to significantly influence operations
- Accountability for fiscal matters

The financial reporting entity only consists of the primary government, the District.

For the fiscal year ended June 30, 2015, the District had included the Hillsborough Schools Foundation and the Hillsborough Recreation in its government-wide financial statements. However, these entities no longer meet the definition of a component unit as defined above, and, therefore, has not been included in the District's June 30, 2019 government-wide financial statements.

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

C. Basis of Presentation

Government-wide Financial Statements:

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the District. Eliminations have been made to minimize the effect of interfund of activities. The Statement of Net Position reports all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund and fiduciary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

The government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. 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. Program revenues include charges paid by the recipients of goods or services offered by a program, as well as 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 of the District, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

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 governmental fund is presented in a separate column, and all non-major funds are aggregated into one column.

The accounting and financial treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Fiduciary funds are reported using the economic resources measurement focus, except for the agency funds, which have no measurement focus.

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

D. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds use the 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 under 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 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. To achieve comparability of reporting among California districts, and so as not to distort normal revenue patterns with specific respect to reimbursement grants and correction to state-aid apportionments, the California Department of Education has defined available for district as collectible within one year.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred Outflows/Deferred Inflows:

In addition to assets, the Statement of Net Position includes a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s), and as such will not be recognized as an outflow of resources (expense/expenditures) until then. The District has recognized a deferred loss on refunding which is reported in the Statement of Net Position. A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shortened life of the refunded or refunding debt. Additionally, the District has recognized a deferred outflow of resources related to the recognition of the net pension liability reported in the Statement of Net Position.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources,

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

represents an acquisition of net position that applies to a future period(s) and as such, will not be recognized as an inflow of resources (revenue) until that time. The District has recognized a deferred inflow of resources related to the recognition of the District's benefit plans liability reported which is in the Statement of Net Position.

Unearned Revenue:

Unearned revenue arises when assets (such as cash) are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements (such as qualified expenditures) are met are recorded as liabilities from unearned revenue.

Unavailable Revenue:

In the governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have been recorded as deferred inflows of resources as unavailable revenue.

Expenses/Expenditures:

Using the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

E. Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows, liabilities, deferred inflows, fund equity or retained earnings, revenues, and expenditures or expenses, as appropriate. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The District's accounts are organized into major and fiduciary funds as follows:

Major Governmental Funds:

The *General Fund* is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund. Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, and Fund 20, Special Reserve for Retiree Benefits Fund, are currently defined as a special revenue funds in the California State

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

Accounting Manual (CSAM), but do not meet the GASB Statement No. 54 special revenue fund definition. While these funds are authorized by statute and will remain open for internal reporting purposes, they function as an extension of the General Fund, and accordingly have been combined with the General Fund for presentation in these audited financial statements.

The *Building Fund* is used to account for the acquisition of major governmental capital facilities and buildings from the sale of bond proceeds.

The *Bond Interest and Redemption Fund* is used to account for taxes received and expended on interest and the redemption of principal of general obligation bonds.

Fiduciary Funds:

Fiduciary Fund reporting focuses on net position and changes in net position. Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the District's own programs. The fiduciary fund category includes pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds, and agency funds.

The District maintains the following fiduciary funds:

- Agency Funds are used to account for assets of others for which the District acts as an agent. The District maintains an agency fund for the student body accounts. The student body funds are used to account for the raising and expending of money to promote the general welfare, morale, and educational experience of the student body.

F. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. By state law, the District's governing board must adopt a final budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements.

These budgets are revised by the District's governing board during the year to give consideration to unanticipated income and expenditures. The original and final revised budgets for the General Fund and major special revenue funds are presented as Required Supplementary Information.

Formal budgetary integration was employed as a management control device during the year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts.

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

G. Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated on June 30.

H. Benefit Plans

Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District's California Public Employees' Retirement System (CalPERS) and California State Teachers' Retirement System plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS and STRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined time frames. For this period, the following time frames were used:

Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
Measurement Period	July 1, 2017 to June 30, 2018

Other Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources, and OPEB expense, information about the District's Retiree Benefits Plan (the OPEB Plan) and additions to/deductions are based on when they are due and payable in accordance with the benefit terms for the measurement period included in the OPEB plan's actuarial reports.

Valuation Date	June 30, 2018
Measurement Date	June 30, 2019
Measurement Period	July 1, 2018 to June 30, 2019

I. Assets, Liabilities, and Equity

a) Cash and Investments

Cash balances held in banks and in revolving funds are insured to \$250,000 by the Federal Deposit Insurance Corporation.

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

In accordance with *Education Code* Section 41001, the District maintains substantially all of its cash in the County Treasury. The county pools these funds with those of other districts in the county and invests the cash. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

All District-directed investments are governed by Government Code Section 53601 and Treasury investment guidelines. The guidelines limit specific investments to government securities, domestic chartered financial securities, domestic corporate issues, and California municipal securities. The District's securities portfolio is held by the County Treasurer. Interest earned on investments is recorded as revenue of the fund from which the investment was made.

The county is authorized to deposit cash and invest excess funds by California Government Code Section '53648 et seq. The funds maintained by the county are either secured by federal depository insurance or are collateralized.

b) Fair Value Measurements

Investments are recorded at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction.

In determining this amount, three valuation techniques are available:

- Market approach - This approach uses prices generated for identical or similar assets or liabilities. The most common example is an investment in a public security traded in an active exchange such as the NYSE.
- Cost approach - This technique determines the amount required to replace the current asset. This approach may be ideal for valuing donations of capital assets or historical treasures.
- Income approach - This approach converts future amounts (such as cash flows) into a current discounted amount.

Each of these valuation techniques requires inputs to calculate a fair value. Observable inputs have been maximized in fair value measures, and unobservable inputs have been minimized.

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

c) Inventories

Inventories are recorded using the purchases method, in that inventory acquisitions are initially recorded as expenditures. Reported inventories are equally offset by a fund balance reserve, which indicates that these amounts are not “available for appropriation and expenditure” even though they are a component of net current assets. The District’s inventory is valued at a moving average cost and consists of expendable supplies held for consumption.

d) Prepaid Expenditures

The District has the option of reporting expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditure during the benefiting period, thus recording a prepaid expenditure in the Statement of Net Position.

e) Capital Assets

Capital assets are those purchased or acquired with an original cost of \$15,000 or more and are reported at historical cost or estimated historical cost. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are reported at acquisition value rather than fair value. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset’s life are not capitalized, but are expensed as incurred.

Depreciation on all capital assets is computed using a straight-line basis over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Improvement of sites	5-50
Buildings	20-50
Building improvements	5-50
Furniture and fixtures	2-15
Equipment	2-15
Computer equipment	2-15
Office equipment	2-15

f) Compensated Absences

Compensated absences are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide statement of net position. For governmental funds, the current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year-end that have not yet been paid with expendable available financial

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

resources. These amounts are reported in the fund from which the employees who have accumulated leave are paid. The non-current portion of the liability is not reported in the statements but is shown as a component of general long-term debt.

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. Service credit for unused sick leave is available to all employees who are members of either STRS or PERS. At retirement, service credit 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.

Separate sick leave banks for catastrophic illness have been established for the certificated, classified, and confidential groups. Sick leave days are donated annually by HTA and CSEA employees to their respective banks at their daily rates. Confidential employees will be granted up to five additional sick leave days for catastrophic illness if needed.

g) Long-Term Liabilities

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of applicable bond premium or discount. Issuance costs are expensed in the period incurred.

In the fund financial statements, governmental funds recognize bond premiums and discounts as well as bond issuance costs, during the current period. The face amount of the debt issued, premiums, or discounts are reported as other financing sources/uses.

h) Fund Balance Policy and Classifications

The District is committed to maintaining a prudent level of financial resources to protect against the need to reduce service levels because of temporary revenue shortfalls or unpredicted expenditures. The District's minimum fund balance policy requires a reserve for economic uncertainties, consisting of unassigned amounts, of 6 percent of general fund operating expenditures and other financing uses.

In accordance with Government Accounting Standards Board 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the District classifies governmental fund balances as follows:

- *Nonspendable* includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

- *Restricted* includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- *Committed* includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision-making authority and does not lapse at year-end. Committed fund balances are imposed by the District's board of education.
- *Assigned* includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted nor committed. Assignments may be identified by either the Board, committees (such as budget or finance), or officials to which the Board has delegated authority.
- *Unassigned* includes positive fund balances within the general fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The District uses restricted/committed amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the District would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

i) Net Position

Net position represents the difference between assets, deferred outflows, liabilities and deferred inflows. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. In addition, deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also are included in the net investment in capital assets component of net position. As of June 30, 2019, capital assets net of accumulated depreciation totaling \$47,566,113 was increased by unspent bond proceeds of \$1,817,582 and reduced by related debt of \$69,084,934, which excluded accreted interest of \$14,204,072 and premiums attributed to cash reserves for debt service of \$594,902. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, laws or regulations of other governments. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Capital Projects restrictions will be used for the acquisition and construction of capital facilities.

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

Debt Service restrictions reflect the cash balances in the debt service funds of \$2,989,844 that are restricted for debt service payments by debt covenants, reduced by outstanding bond premium of \$594,902.

Educational Programs restrictions reflect the amounts to be expended on specific school programs funded by federal and state resources and from locally funded programs with stipulated uses.

Cafeteria Program restrictions reflect the cash balances in the Cafeteria fund that are restricted for food services and child nutrition programs.

Unrestricted net position reflects amounts that are not subject to any donor-imposed restrictions. This class also includes restricted gifts whose donor-imposed restrictions were met during the fiscal year. A deficit unrestricted net position may result when significant cash balances restricted for capital projects exist. Once the projects are completed, the restriction on these assets are released and converted to capital assets.

j) Local Control Funding Formula and Property Taxes

The Local Control Funding Formula (LCFF) creates base, supplemental, and concentration grants in place of most previously existing K–12 funding streams, including revenue limits and most state categorical programs. The revenue limit was a combination of local property taxes, state apportionments, and other local sources.

Until full implementation, local educational agencies (LEAs) will receive roughly the same amount of funding they received in 2012–13 plus an additional amount each year to bridge the gap between current funding levels and LCFF target levels. The budget projects the time frame for full implementation of the LCFF to be eight years.

The county is responsible for assessing, collecting, and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the county. The levy is based on the assessed values as of the preceding March 1, which is also the lien date. Property taxes on the secured roll are due on August 31 and February 1, and taxes become delinquent after December 10 and April 10, respectively. Property taxes on the unsecured roll are due on the lien date (March 1), and become delinquent if unpaid by August 31.

Secured property taxes are recorded as revenue when apportioned, in the fiscal year of the levy. The county apportions secured property tax revenue in accordance with the alternate method of distribution prescribed by Section 4705 of the California *Revenue and Taxation Code*. This alternate method provides for crediting each applicable fund with its total secured taxes upon completion of the secured tax roll - approximately October 1 of each year.

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

The County Auditor reports the amount of the District's allocated property tax revenue to the California Department of Education. Property taxes are recorded as local revenue limit sources by the District.

k) Risk Management

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. The District has joined together with other school districts in the County to form the San Mateo County Schools Insurance Group ("SMCSIG") public entity risk pool. The District pays an annual premium for its property and casualty, workers' compensation, and liability insurance coverage. The Joint Powers Agreements provide that SMCSIG will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of self-insured levels.

There were no significant reductions in insurance coverage from coverage in the prior year and no insurance settlement exceeding insurance coverage.

l) Accounting Estimates

The presentation 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 reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

m) Subsequent Events

Management has reviewed subsequent events and transactions that occurred after the date of the financial statements through the date the financial statements were issued. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles. Management has determined that there are no non-recognized subsequent events that require additional disclosure, other than the following:

The District issued \$1,000,000 of Tax and Revenue Anticipation Notes dated July 11, 2019. The notes mature on June 30, 2020 and have a three percent interest rate. The notes were sold to supplement cash flow. Repayment requirements are that fifty percentage of principal be deposited with the Fiscal Agent by January 1, 2020 and remaining principal and interest be deposited by April 1, 2020.

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

J. Implemented New Accounting Pronouncements

GASB Statement No. 83, Certain Asset Retirement Obligations

This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. As of June 30, 2019, this Statement did not have an impact on the District's financial statements.

GASB Statement No. 88, Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements

This Statement addresses additional information to be disclosed in the notes to the financial statements regarding debt, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. As of June 30, 2019, this Statement did not have an impact on the District's financial statements.

K. Upcoming Accounting and Reporting Changes

GASB Statement No. 84, *Fiduciary Activities*

The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2018. Earlier application is encouraged. The District doesn't believe this statement will have a significant impact on the District's financial statements.

GASB issued Statement No. 87, *Leases*

The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2019. Earlier application is encouraged. The District doesn't believe this statement will have a significant impact on the District's financial statements.

GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of the Construction Period*

This Statement addresses interest costs incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2019. Earlier application is encouraged. The District doesn't believe this statement will have a significant impact on the District's financial statements.

GASB Statement No. 90, *Majority Equity Interests - an Amendment of GASB Statements No. 14 and No. 61*

The objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. This Statement also requires that a component unit in which a government has 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2018. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis. The District doesn't believe this statement will have a significant impact on the District's financial statements.

GASB Statement No. 91, *Conduit Debt Obligations*

The objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement also clarifies the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitment and voluntary commitments extended by issuers and arrangements associated with the debt obligations; and

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

improving required note disclosures. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2020. Earlier application is encouraged. The District doesn't believe this statement will have a significant impact on the District's financial statements.

2. CASH AND INVESTMENTS

A summary of cash and investments as of June 30, 2019 is as follows:

Description	Carrying Amount	Fair Value	Investment Rating
Government-Wide Statements:			
Cash with fiscal agent	\$ 3,531	\$ 3,531	Not Rated
Cash in revolving funds	4,900	4,900	Not Rated
Local Agency Investment Fund	1,841	1,844	N/A
Cash with County	13,097,937	13,131,992	N/A
Total Cash and Investments	<u>\$ 13,108,209</u>	<u>\$ 13,142,267</u>	
Fiduciary Funds:			
Cash in Banks	<u>\$ 61,264</u>	<u>\$ 61,264</u>	

Cash in Banks and in Revolving Funds

Cash balances in banks and revolving funds are insured up to \$250,000 per bank by the Federal Deposit Insurance Corporation ("FDIC"). These accounts are held within various financial institutions. As of June 30, 2019, the bank balances of the District's accounts were fully insured by FDIC.

Cash in County Treasury

The District is considered to be an involuntary participant in an external investment pool as the District is required to maintain substantially all of its cash with the County Treasurer in accordance with 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.

Fair Value Measurements

GASB 72 established a hierarchy of inputs to the valuation techniques above. This hierarchy has three levels:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities.

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

- Level 2 inputs are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable.
- Level 3 inputs are unobservable inputs, such as a property valuation or an appraisal.

The District has the following recurring fair value measurements as of June 30, 2019:

Investments in the San Mateo County Treasury Investment Pool are not measured using the input levels above because the District's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share.

Policies and Practices

The District is authorized under California Government Code Section 53635 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.

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 the changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury. The District maintains cash with the County of San Mateo Investment Pool. The pool has a fair value of approximately \$222.5 million and an amortized book value of \$221.9 million.

Credit Risk

Credit risk is the risk of loss due to the failure of the security issuer. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investment with the County of San Mateo Investment Pool is governed by the County's general investment policy. The investment with the County of San Mateo Investment Pool is rated at least A-1 by Standard and Poor's Investor Service.

Custodial Credit Risk - Deposits

Custodial credit risk 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

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

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 agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits.

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government code. District investments that are greater than 5 percent of total investments are in either an external investment pool or mutual funds and are, therefore, exempt.

3. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following as of June 30, 2019:

Description	Bond				Total
	General Fund	Buiding Fund	Interest Redemption	Nonmajor Funds	
Federal Government	\$ 265,437	\$ -	\$ -	\$ -	\$ 265,437
State Government	223,172	-	-	1,715	224,887
Local Government	21,244	-	-	-	21,244
Unrestricted	95,187	11,132	15,625	4,363	126,307
Total Accounts Receivable	<u>\$ 605,040</u>	<u>\$ 11,132</u>	<u>\$ 15,625</u>	<u>\$ 6,078</u>	<u>\$ 637,875</u>

4. INTERFUND TRANSACTIONS

Interfund transactions are reported as either loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables (Due From/To), as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers among governmental funds are netted as part of the reconciliation to the government-wide financial statements.

Interfund Receivables/Payables (Due From/Due To)

As of June 30, 2019, the District did not have any interfund payables and receivables to report.

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving revenues to funds through which the resources are to be expended. During the fiscal year ended June 30, 2019 the District had the following transfers:

Description	Transfers In	Transfers Out
General Fund	\$ 80,000	\$ -
Nonmajor Funds	-	80,000
Totals	<u>\$ 80,000</u>	<u>\$ 80,000</u>

5. CAPITAL ASSETS AND DEPRECIATION

Capital asset activities for the year ended June 30, 2019 were as follows:

Capital Assets	Balance July 01, 2018	Additions	Adjustments/ Deletions	Balance June 30, 2019
Land - not depreciable	\$ 228,711	\$ -	\$ -	\$ 228,711
Land Improvements	1,814,365		-	1,814,365
Buildings and Improvements	77,091,151	147,400		77,238,551
Furniture and Equipment	2,457,780		(278,942)	2,178,838
Total capital assets	81,592,007	147,400	(278,942)	81,460,465
Less accumulated depreciation for:				
Land Improvements	1,382,901	76,432	-	1,459,333
Buildings and Improvements	28,439,978	2,329,790	-	30,769,768
Furniture and Equipment	1,858,461	85,732	(278,942)	1,665,251
Total accumulated depreciation	31,681,340	2,491,954	(278,942)	33,894,352
Total capital assets - net depreciation	<u>\$ 49,910,667</u>	<u>\$ (2,344,554)</u>	<u>\$ -</u>	<u>\$ 47,566,113</u>

Depreciation expense was charged to the following governmental activities:

Instruction	\$ 1,735,830
Supervision of instruction	118,139
Instruction library, media and technology	13,243
School site administration	133,965
Home-to-school transportation	14,603
All other pupil services	76,931
Community services	20,428
All other general administration	126,958
Data process services	34,152
Plant services	217,705
Total depreciation expense	<u>\$ 2,491,954</u>

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

6. LONG-TERM LIABILITIES

Schedule of Changes in Long-term Liabilities

The following summarizes the District's changes in long-term liabilities for the fiscal year ended June 30, 2019:

Description	Balance July 01, 2018	Additions	Adjustments & Deletions	Balance June 30, 2019	Due Within One Year
General Obligation Bonds	\$ 81,099,917	\$ 5,057,717	\$ 2,273,726	\$ 83,883,908	\$ 2,313,874
Net Pension Liabilities	30,954,200	10,302,089	10,835,997	30,420,292	-
Total OPEB Liability	4,516,719	793,340	362,867	4,947,192	-
Compensated Absences	224,196	14,734	-	238,930	-
Total Long-term Liabilities	<u>\$ 116,795,032</u>	<u>\$ 16,167,880</u>	<u>\$ 13,472,590</u>	<u>\$ 119,490,322</u>	<u>\$ 2,313,874</u>

Payments on bonds were made from the Bond Interest and Redemption Fund and Debt Service Fund using local revenues. Compensated absences, net pension liabilities and total OPEB liabilities were paid by the fund for which the employee worked. Leases were paid from the General Fund.

General Obligation Bonds Payable

The following summarizes the bonds outstanding as of June 30, 2019:

Bond	Maturity Date Sept 1,	Interest Rate %	Original Issue	Bonds Outstanding July 01, 2018	Adjustments Accretion/ Issued	Adjustments & Redeemed	Bonds Outstanding June 30, 2019
2002 GOB Series B	2031	4.74-4.88	\$ 12,011,422	\$ 12,011,422	\$ -	\$ -	\$ 12,011,422
2002 GOB Series C	2045	2.35-7.30	19,660,012	551,934	-	20,635	531,299
2002 GOB Series D	2035	2.62	2,118,566	-	2,118,566	-	2,118,566
2012 Refunding Bonds	2027	0.20-2.57	8,850,000	7,315,000	-	415,000	6,900,000
2016A Refunding Bonds	2022	2.00-4.00	9,390,000	7,935,000	-	1,265,000	6,670,000
2016B Refunding Bonds	2022	2.00-4.00	2,345,000	2,185,000	-	395,000	1,790,000
2016B Refunding Bonds	2042	2.678-4.550	39,063,647	39,063,647	-	-	39,063,647
Subtotal General Obligation Bonds			93,438,647	69,062,003	2,118,566	2,095,635	69,084,934
Accreted Interest			73,080,081	11,294,287	2,939,151	29,366	14,204,072
Bond Premiums			-	743,627	-	148,725	594,902
Total General Obligation Bonds			<u>\$ 166,518,728</u>	<u>\$ 81,099,917</u>	<u>\$ 5,057,717</u>	<u>\$ 2,273,726</u>	<u>\$ 83,883,908</u>

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

The annual debt service requirements of the bonds are as follows:

For the Fiscal Year Ending June 30,	Principal	Interest	Total
2020	\$ 2,313,874	\$ 734,193	\$ 3,048,067
2021	2,677,986	696,718	3,374,704
2022	2,974,093	607,194	3,581,287
2023	3,286,072	516,194	3,802,266
2024	2,226,071	1,856,635	4,082,706
2025-2029	11,849,789	12,720,110	24,569,899
2030-2034	13,029,209	19,817,758	32,846,967
2035-2039	18,366,038	25,469,022	43,835,060
2040-2044	12,361,802	23,868,087	36,229,889
Total Debt Service	<u>\$ 69,084,934</u>	<u>\$ 86,285,911</u>	<u>\$ 155,370,845</u>

7. CALPERS PENSION PLAN

General Information about the PERS Pension Plan

Plan Description - All qualified permanent and probationary employees are eligible to participate in the District's CalPERS Employee Pension Plan (the Plan), a cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

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 credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for the Plan are applied as specified by the Public Employees' Retirement Law.

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

The Plans' provisions and benefits in effect at June 30, 2019, are summarized as follows:

	CalPERS	
	Classic	PEPRA
Benefit formula	2% @ 55	2% @ 62
Benefit vesting schedule	5 Years	5 Years
Benefit payments	Monthly for Life	Monthly for Life
Retirement age: minimum	50	52
Monthly benefits as a % of eligible compensation	(1)	(1)
Required employee contribution rates	7.000%	7.000%
Required employer contribution rates	18.062%	18.062%

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 the July 1 following notice of a change in the rate. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by CalPERS. 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. For fiscal year ending June 30, 2019, the State enacted Senate Bill No. 90 which appropriated funding to the Public Employees' Retirement Fund on behalf of the District.

For the year ended June 30, 2019 the District's contributions were as follows:

	CalPERS
Employer Contributions	\$ 635,069
State Contributions	221,209
Total	<u><u>\$ 856,278</u></u>

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to PERS

As of June 30, 2019, the District reported net pension liabilities for its proportionate shares of the net pension liability of the Plan as follows:

	Proportionate Share of Net Pension Liability/(Asset)
District	<u><u>\$ 6,524,472</u></u>

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2018, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018 using standard update procedures. 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 employers, actuarially determined.

The District's proportionate shares of the net pension liability for the Plan as of, June 30, 2018 and 2019 was as follows:

	<u>CalPERS</u>
Proportion - June 30, 2018	0.02507%
Proportion - June 30, 2019	0.02447%
Change - Increase/(Decrease)	<u>-0.00060%</u>

For the year ended June 30, 2019, the District recognized pension expense of \$1,198,107 for the Plan.

At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>CalPERS</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes of Assumptions	\$ 651,440	\$ -
Differences between Expected and Actual Experience	427,721	-
Differences between Projected and Actual Investment Earnings	53,515	-
Differences between Employer's Contributions and Proportionate Share of Contributions	-	4,881
Change in Employer's Proportion	30,394	113,696
Pension Contributions Made Subsequent to Measurement Date	635,069	-
Total	<u>\$ 1,798,139</u>	<u>\$ 118,577</u>

The District reported \$635,069 as deferred outflows of resources related to contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ended June 30, 2020.

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ending June 30:	Deferred Outflows/ (Inflows) of Resources CalPERS
2020	\$ 631,121
2021	489,487
2022	(37,605)
2023	(38,510)
Total	\$ 1,044,493

Actuarial Assumptions - The total pension liabilities in the June 30, 2017 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Payroll Growth	2.75%
Projected Salary Increase	(1)
Investment Rate of Return	7.15% (2)
Mortality	(3)

- (1) Varies by age and service
- (2) Net of pension plan investment expenses, including inflation
- (3) Derived using CalPERS' membership data for all funds

Discount Rate - The discount rate used to measure the total pension liability was 7.15%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, CalPERS stress tested employer rate plans within the Plan that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested employer rate plans run out of assets. Therefore, the current 7.15% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The stress test results are presented in a detailed report, GASB Statements 67 and 68 Crossover Testing Report for Measurement Date June 30, 2018 based on June 30, 2017 Valuations, that can be obtained from the CalPERS website.

According to Paragraph 30 of GASB 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. For the CalPERS Plan, the 7.00% investment

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.15%. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

In the December 2016 and April 2017 meetings, the Board voted to lower the funding discount rates used for the PERF. In making its decision, the Board reviewed recommendations from CalPERS team members, external pension and investment consultants, and input from employer and employee stakeholder groups. A lowered funding discount rate for the PERF will be phased in over a three-year period beginning July 1, 2018 for public agencies and school districts.

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.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the Plan's asset classes, expected compound (geometric) returns were calculated over the short-term (first 11 years) and the long-term (60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for the Plan. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

Asset Class (a)	Assumed Asset Allocation	Real Return Years 1 - 10 (b)	Real Return Years 11+ (c)
Global Equity	50.00%	4.80%	5.98%
Fixed Income	28.00%	1.00%	2.62%
Inflation Sensitive	0.00%	0.77%	1.81%
Private Equity	8.00%	6.30%	7.23%
Real Estate	13.00%	3.75%	4.93%
Liquidity	1.00%	0.00%	-0.92%
Total	<u>100.00%</u>		

- (a) In the System's CAFR, Fixed Income is included in Global Debt Securities;
Liquidity is included in Short-term Investments; Inflation Assets are
included in both Global Equity Securities and Global Debt Securities.
- (b) An expected inflation of 2.0% used for this period.
- (c) An expected inflation of 2.92% used for this period.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the District's proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	<u>CalPERS</u>
1% Decrease	6.15%
Net Pension Liability	\$ 9,499,320
Current	7.15%
Net Pension Liability	\$ 6,524,472
1% Increase	8.15%
Net Pension Liability	\$ 4,056,411

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

Pension Plan Fiduciary Net Position - Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

8. California State Teachers' Retirement System (STRS) Pension Plan

General Information about the STRS Pension Plan

Plan Description - The District contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability, and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information.

Benefits Provided - STRS 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 credited service, equal to one year of full time employment. The cost of living adjustments for the Plan are applied as specified by the retirement Law.

The Plan's provisions and benefits in effect at June 30, 2019, are summarized as follows:

	CalSTRS	
	Tier 1	Tier 2
Benefit formula	2% @ 60	2% @ 62
Benefit vesting schedule	5 Years	5 Years
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	60	62
Monthly benefits as a % of eligible compensation	2%	2%
Required employee contribution rates	10.250%	10.205%
Required employer contribution rates	16.280%	16.280%
Required State contribution rates	9.828%	9.828%

Contributions - As part of the annual valuation process, the Normal Cost rate is determined as the basis for setting the base member contribution rate for the following fiscal year. Generally, the base member contribution rate is one-half of the Normal Cost rate within certain parameters. Required member, employer and state contribution rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. Contribution rates are expressed as a level percentage of payroll using the entry age normal actuarial cost method.

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

For the year ended June 30, 2019, the District contributions were as follows.

	<u>CalSTRS</u>
Employer Contributions	\$ 2,350,055
State Contributions	2,174,168
Total	<u>\$ 4,524,223</u>

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to STRS

As of June 30, 2019, the District reported net pension liabilities for its proportionate shares of the net pension liability of the Plan as follows:

	<u>Proportionate Share of Net Pension Liability/(Asset)</u>
District	\$ 23,895,820
State	13,681,552
Total	<u>\$ 37,577,372</u>

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2018, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018 using standard update procedures. 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 employers, actuarially determined. The state contributed 9.124 percent of the members' creditable earnings from the fiscal year ending in the prior calendar year plus an additional \$915,536 as required by SB90. Also, as a result of AB 1469, the additional state appropriation required to fully fund the benefits in effect as of 1990 by 2046 is specific in subdivision (b) of Education Code Section 22955.1. The increased contributions end as of fiscal year 2045-2046.

The District's proportionate share of the net pension liability for the Plan as of June 30, 2018 and 2019 was as follows:

	<u>CalSTRS</u>
Proportion - June 30, 2018	0.02700%
Proportion - June 30, 2019	0.02600%
Change - Increase/(Decrease)	<u>-0.00100%</u>

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

For the year ended June 30, 2019, the District recognized pension expense of \$2,696,630 for the Plan.

At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	CalSTRS	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of Assumptions	\$ 3,712,280	\$ -
Differences between Expected and Actual Experience	74,100	347,100
Differences between Projected and Actual Investment Earnings	-	920,140
Differences between Employer's Contributions and Proportionate Share of Contributions	27,596	18,918
Change in Employer's Proportion	312,116	1,100,331
Pension Contributions Made Subsequent to Measurement Date	2,350,055	-
Total	\$ 6,476,147	\$ 2,386,489

The District reported \$2,350,055 as deferred outflows of resources related to contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ended June 30, 2020.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ending	Deferred Outflows/ (Inflows) of Resources
June 30:	CalSTRS
2020	\$ 748,190
2021	403,430
2022	(223,690)
2023	288,574
2024	638,218
Thereafter	(115,119)
Total	\$ 1,739,603

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

Actuarial Assumptions - The total pension liabilities in the June 30, 2018 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.10%
Inflation	2.75%
Wage Growth	3.50%
Postretirement Benefit Increases	(1)
Investment Rate of Return	7.10% (2)
Mortality	(3)

- (1) 2% simple for DB (annually)
 - Maintain 85% purchasing power level for DB
 - Not applicable for DBS/CBB
- (2) Net of investment expense but gross of administrative expenses.
- (3) Based on 110% of the MP-2016 Ultimate Projection Scale table issued by the Society of Actuaries.

Discount Rate - The discount rate used to measure the total pension liability was 7.10 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increases per AB 1469. Projected inflows from investment earnings were calculated using the long term assumed investment rate of return (7.10 percent) and assuming that contributions, benefit payments, and administrative expense occur midyear. Based on those assumptions, the plan'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 the total pension liability.

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	Assumed Asset Allocation	Long-Term Expected Rate of Return ⁽¹⁾
Global Equity	47.00%	6.30%
Fixed Income	12.00%	0.30%
Real Estate	13.00%	5.20%
Private Equity	13.00%	9.30%
Risk Mitigating Strategies	9.00%	2.90%
Inflation Sensitive	4.00%	3.80%
Cash/Liquidity	2.00%	-1.00%
Total	100.00%	

⁽¹⁾ 20 year average

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the District's proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	CalSTRS
1% Decrease	6.10%
Net Pension Liability	\$ 35,004,580
Current	7.10%
Net Pension Liability	\$ 23,895,820
1% Increase	8.10%
Net Pension Liability	\$ 14,685,580

Pension Plan Fiduciary Net Position - Detailed information about each pension plan's fiduciary net position is available in the separately issued STRS financial reports.

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

9. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

Plan Description - The District's Postemployment Healthcare Plan (PHP) is a single-employer defined benefit healthcare plan including medical and dental for the below groups of employees.

Benefits - The following summarizes the benefits in the plan:

	Certificated Management	Certificated	Classified
Benefits Provided:	Medical and dental	Medical and dental	Medical and dental
Duration of Benefits:	The greater of 5 years or to Medicare eligibility*	The greater of 5 years or to Medicare eligibility*	The greater of 5 years or to Medicare eligibility*
Required Services:	None	15 years*	15 years*
Minimum Age:	STRS retirement	STRS retirement	55*
Dependent Coverage:	No	No	No
District Contribution %	100%	100%	100%
District Cap	\$633 per month*	\$193 per month*	\$193 per month*

	Classified Management	Confidential
Benefits Provided:	Medical and dental	Medical and dental
Duration of Benefits:	The greater of 5 years or to Medicare eligibility*	The greater of 5 years or to Medicare eligibility*
Required Services:	None	6 year*
Minimum Age:	PERS retirement	PERS retirement
Dependent Coverage:	No	No
District Contribution %	100%	100%
District Cap	\$750 per month*	6 yrs service: \$194.50; 9 yrs service: \$291.75; 15 yrs service: \$389.00*

* Those not qualifying for above benefit or exhausting above benefits qualify for statutory CalPERS minimum employer contributions. This includes those who retire under PERS earlier than age 55. Also, in the future, the above stated maximums may be lower than statutory minimums. We used statutory minimums at such time as the above contributions were projected to be lower than minimum statutory contributions.

**The Business Manager receives benefits for the greater of 15 years or to Medicare eligibility.

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

Employees Covered by Benefit Terms - At June 30, 2018 (the valuation date), the benefit terms covered the following employees:

Active employees	183
Inactive employees	62
Total employees	<u>245</u>

Contributions - The District makes contributions based on an actuarially determined rate and are approved by the authority of the District's Board. Total contributions to the OPEB plan during the year were \$170,942. The actuarially determined contribution for the measurement period was \$511,449. The District's contributions and benefit payments were 0.93% of payroll during the measurement period June 30, 2019 (reporting period June 30, 2019). Employees are not required to contribute to the plan. There have been no assets accumulated in a trust to provide for the benefits of this plan.

Actuarial Assumptions - The following summarized the actuarial assumptions for the OPEB plan included in this fiscal year:

Valuation Date:	June 30, 2018
Measurement Date:	June 30, 2019
Actuarial Cost Method:	Entry-Age Normal Cost Method
Amortization Period:	33 years
Actuarial Assumptions:	
Discount Rate	3.50%
Inflation	2.75%
Payroll Increases	2.75%
Municipal Bond Rate	3.50%
Healthcare Trend	4.00%
Mortality	2009 CalSTRS Mortality 2014 CalPERS Active Mortality for Miscellaneous employees
Retirement	2009 CalSTRS Mortality Hired before 1/1/2013: 2009 CalPERS Retirement Rates for School Employees Hired after 12/31/2012: 2009 CalPERS Retirement Rate for Miscellaneous Employees 2%@60 adjusted to minimum retirement age of 52
Service Requirement	Either pension eligibility or Section 22893 depending on hire date and employee choice

Discount Rate - The discount rate was based on the Bond Buyer 20-bond General Obligation Index.

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

Changes in the Total OPEB Liability - The following summarizes the changes in the total OPEB liability during the year ended June 30, 2019, for the measurement date of June 30, 2019

Fiscal Year Ended June 30, 2019 (Measurement Date June 30, 2019)	Total OPEB Liability	Plan Fiduciary Net Position	Total OPEB Liability
Balance at June 30, 2018	\$ 4,516,719	\$ -	\$ 4,516,719
Service cost	256,310	-	256,310
Interest in Total OPEB Liability	159,579	-	159,579
Balance of changes in assumptions	185,526	-	185,526
Benefit payments	(170,942)	-	(170,942)
Net changes	430,473	-	430,473
Balance at June 30, 2019	<u>\$ 4,947,192</u>	<u>\$ -</u>	<u>\$ 4,947,192</u>
Covered Employee Payroll	\$ 18,324,903		
Total OPEB Liability as a % of Covered Employee Payroll	27.00%		
Plan Fid. Net Position as a % of Total OPEB Liability	0.00%		
Service Cost as a % of Covered Employee Payroll	1.40%		
Net OPEB Liability as a % of Covered Employee Payroll	27.00%		

The District's plan is nonfunded, meaning there have not been assets placed into an irrevocable trust, therefore the plan fiduciary net position is zero.

Deferred Inflows and Outflows of Resources - At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between actual and expected experience	\$ -	\$ -
Difference between actual and expected earnings	-	-
Change in assumptions	168,187	-
OPEB contribution subsequent to measurement date	-	-
Totals	<u>\$ 168,187</u>	<u>\$ -</u>

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30,		
2020	\$	17,339
2021		17,339
2022		17,339
2023		17,337
2024		17,339
Thereafter		81,494
Total	\$	<u>168,187</u>

OPEB Expense - The following summarizes the OPEB expense by source during the year ended June 30, 2019, for the measurement date of June 30, 2019:

Service cost	\$	256,310
Interest in TOL		159,579
Change in assumptions		17,339
OPEB Expense	\$	<u>433,228</u>

The following summarizes changes in the net OPEB liability as reconciled to OPEB expense during the year ended June 30, 2019, for the measurement date of June 30, 2019:

Total OPEB liability ending	\$	4,947,192
Total OPEB liability beginning		<u>(4,516,719)</u>
Change in total OPEB liability		430,473
Changes in deferred outflows		<u>(168,187)</u>
Employer contributions and implicit subsidy		170,942
OPEB Expense	\$	<u>433,228</u>

Sensitivity to Changes in the Municipal Bond Rate - 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 municipal bond rate (used to determine the discount rate) that is one percentage point lower or one percentage point higher, is as follows:

	Municipal Bond Rate		
	(1% Decrease)	3.50%	(1% Increase)
Total OPEB Liability	\$ 5,779,355	\$ 4,947,192	\$ 4,291,843

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

Sensitivity to Changes in the Healthcare Cost Trend Rates - 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 percentage point lower or one percentage point higher than current healthcare cost trend rates, is as follows:

	Trend Rate		
	(1% Decrease)	4.00%	(1% Increase)
Total OPEB Liability	\$ 4,328,248	\$ 4,947,192	\$ 5,714,093

10. COMMITMENTS AND CONTINGENCIES

Litigation

Various claims involving the District arise during the normal course of business. However, management believes, based on consultation with legal counsel, that the ultimate resolution of these matters will not have a material adverse effect on the District's financial position or results of operations.

Federal and State Allowances, Awards and Grants

The District has received federal and state funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursement will not be material.

11. JOINT POWERS AGREEMENTS

The District participates in a joint venture under a joint powers agreement (JPA) with San Mateo County Schools Insurance Group (SMCSIG) for property and liability and workers' compensation insurance. The relationship between the District and the JPA is such that the JPA is not a component unit of the District for financial reporting purposes.

The JPA arranges for and provides for various types of insurances for its member districts as requested. The JPA is governed by a board consisting of a representative from each member district. The board controls the operations of the JPA, including selection of management and approval of operating budgets, independent of any influence by the member districts beyond their representation on the board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to their participation in the JPA.

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2019

The following is a summary of the SMCSIG JPA's most recent financial statement information:

	SMCSIG June 30, 2018
Total Assets and Deferred Outflows	\$ 25,857,722
Total Liabilities and Deferred Inflows	10,504,013
Total Net Position	15,353,709
Total Revenues	45,214,456
Total Expenditures	42,672,851

**REQUIRED
SUPPLEMENTARY
INFORMATION**

Hillsborough City School District
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (GAAP)
General Fund
For the Fiscal Year Ended June 30, 2019

	Budgeted Amounts			Variance with Final Budget Positive - (Negative)
	Original	Final	Actual (GAAP Basis)	
Revenues:				
LCFF/Property Taxes	\$ 21,198,105	\$ 21,219,998	\$ 21,299,567	\$ 79,569
Federal	263,816	267,918	267,918	-
Other state	2,001,219	3,070,335	3,095,672	25,337
Other local	6,475,614	6,817,231	6,845,453	28,222
Total revenues	29,938,754	31,375,482	31,508,610	133,128
Expenditures:				
Certificated salaries	14,540,998	14,855,131	14,701,517	153,614
Classified salaries	3,437,544	3,694,608	3,623,388	71,220
Employee benefits	6,507,255	7,941,111	7,854,815	86,296
Books and supplies	1,281,944	1,165,177	895,676	269,501
Services and other operating expenditures	3,630,200	3,418,887	3,070,587	348,300
Capital outlay	40,000	173,610	123,055	50,555
Other outgo	159,783	217,895	207,579	10,316
Total expenditures	29,597,724	31,466,419	30,476,617	989,802
Excess (deficiency) of revenues over (under) expenditures	341,030	(90,937)	1,031,993	1,122,930
Other financing sources (uses):				
Transfers in	70,000	70,000	80,000	10,000
Total other financing sources (uses)	70,000	70,000	80,000	10,000
Changes in fund balance	\$ 411,030	\$ (20,937)	1,111,993	\$ 1,132,930
Fund balance beginning			7,028,749	
Fund balance ending			\$ 8,140,742	

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 States of America as prescribed by the Governmental Accounting Standards Board. The budgets are revised during the year by the Board of Education to provide for revised priorities. Expenditures cannot legally exceed appropriations by major object code. The originally adopted and final revised budgets for the General Fund are presented as Required Supplementary Information. The basis of budgeting is the same as GAAP. Employee benefits exceeded budget as noted above because of unanticipated onbehalf payments for STRS and PERS from the state, which is offset by revenue.

Hillsborough City School District
Schedule of CalPERS Pension Plan Contributions
For the Fiscal Year Ended June 30, 2019

CalPERS	2015	2016	2017	2018	2019
Contractually Required Contributions	\$ 332,046	\$ 350,898	\$ 444,062	\$ 503,369	\$ 635,069
Contributions in Relation to Contractually Required Contributions	332,046	350,898	444,062	503,369	635,069
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 2,820,882	\$ 2,961,914	\$ 3,197,451	\$ 3,241,060	\$ 3,516,050
Contributions as a % of Covered Payroll	11.77%	11.85%	13.89%	15.53%	18.06%

Notes to Schedule:

Valuation Date: June 30, 2017

Assumptions Used: Entry Age Method used for Actuarial Cost Method
Level Percentage of Payroll and Direct Rate Smoothing
4 Years Remaining Amortization Period
Inflation Assumed at 2.5%
Investment Rate of Returns set at 7.15%
CalPERS mortality table based on CalPERS' experience and include 15 years of projected ongoing mortality improvement using 90 percent of Scale MP 2016 published by the Society of Actuaries.

Fiscal year 2015 was the first year of implementation, therefore only five years are shown.

The CalPERS discount rate was increased from 7.5% to 7.65% in the District's fiscal year 2016 and then decreased from 7.65% to 7.15% in the District's fiscal year 2018.

The CalPERS inflation assumption was decreased from 2.75% to 2.50% during the District's fiscal year 2019.

The CalPERS mortality assumptions was adjusted in the District's fiscal year 2019.

This schedule provides information about the District's required and actual contributions to CalPERS during the year.

Hillsborough City School District
Schedule of CalPERS Proportionate Share of Net Pension Liabilities
For the Fiscal Year Ended June 30, 2019

CalPERS	2015	2016	2017	2018	2019
District's Proportion of Net Pension Liability	0.02570%	0.02533%	0.02541%	0.02507%	0.02447%
District's Proportionate Share of Net Pension Liability	\$ 2,917,576	\$ 3,733,599	\$ 5,018,892	\$ 5,984,871	\$ 6,524,472
District's Covered Payroll	\$ 2,724,309	\$ 2,820,882	\$ 2,961,914	\$ 3,197,451	\$ 3,241,060
District's Proportionate Share of NPL as a % of Covered Payroll	107.09%	132.36%	169.45%	187.18%	201.31%
Plan's Fiduciary Net Position as a % of the TPL	83.38%	79.43%	73.90%	71.87%	70.85%

Fiscal year 2015 was the first year of implementation, therefore only five years are shown.

The CalPERS discount rate was increased from 7.5% to 7.65% in the District's fiscal year 2016 and then decreased from 7.65% to 7.15% in the District's fiscal year 2018.

The CalPERS inflation assumption was decreased from 2.75% to 2.50% during the District's fiscal year 2019.

The CalPERS mortality assumptions was adjusted in the District's fiscal year 2019.

This schedule presents information on the District's portion of the net pension liability of CalPERS in compliance with GASB 68.

Hillsborough City School District
Schedule of STRS Pension Plan Contributions
For the Fiscal Year Ended June 30, 2019

CalSTRS	2015	2016	2017	2018	2019
Contractually Required Contributions	\$ 1,157,499	\$ 1,465,703	\$ 1,769,285	\$ 2,003,090	\$ 2,350,055
Contributions in Relation to Contractually Required Contributions	1,157,499	1,465,703	1,769,285	2,003,090	2,350,055
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 13,034,899	\$ 13,659,860	\$ 14,064,269	\$ 13,881,428	\$ 14,435,227
Contributions as a % of Covered Payroll	8.88%	10.73%	12.58%	14.43%	16.28%

Notes to Schedule:

Valuation Date: June 30, 2017
Assumptions Used: Entry Age Method used for Actuarial Cost Method
Level Percentage of Payroll Basis
7 Years Remaining Amortization Period
Inflation Assumed at 2.75%
Investment Rate of Returns set at 7.10%

Fiscal year 2015 was the first year of implementation, therefore only five years are shown.
The CalSTRS discount rate was decreased from 7.6% to 7.1% in the District's fiscal year 2017.
The CalSTRS investment rate of return was decreased from 7.6% to 7.1% during the District's fiscal year 2017.
The CalSTRS inflation rate was decreased from 3% to 2.75% during the District's fiscal year 2017.
The CalSTRS wage growth was decreased from 3.75% to 3.5% during the District's fiscal year 2017.

This schedule provides information about the District's required and actual contributions to CalSTRS during the year.

Hillsborough City School District
Schedule of STRS Proportionate Share of Net Pension Liabilities
For the Fiscal Year Ended June 30, 2019

CalSTRS	2015	2016	2017	2018	2019
District's Proportion of Net Pension Liability	0.02687%	0.02642%	0.02652%	0.02700%	0.02600%
District's Proportionate Share of Net Pension Liability	\$ 15,702,742	\$ 17,786,323	\$ 21,446,713	\$ 24,969,330	\$ 23,895,820
State's Proportionate Share of Net Pension Liability					
Associated with the District	9,481,944	9,407,008	12,209,185	14,771,606	13,681,552
Total	<u>\$ 25,184,686</u>	<u>\$ 27,193,331</u>	<u>\$ 33,655,898</u>	<u>\$ 39,740,936</u>	<u>\$ 37,577,372</u>
District's Covered Payroll	\$ 12,133,816	\$ 13,034,899	\$ 13,659,860	\$ 14,064,269	\$ 13,881,428
District's Proportionate Share of NPL as a % of Covered Payroll	129.41%	136.45%	157.01%	177.54%	172.14%
Plan's Fiduciary Net Position as a % of the TPL	76.52%	74.02%	70.04%	69.46%	70.99%

Fiscal year 2015 was the first year of implementation, therefore only five years are shown.
The CalSTRS discount rate was decreased from 7.6% to 7.1% in the District's fiscal year 2017.
The CalSTRS investment rate of return was decreased from 7.6% to 7.1% during the District's fiscal year 2017.
The CalSTRS inflation rate was decreased from 3% to 2.75% during the District's fiscal year 2017.
The CalSTRS wage growth was decreased from 3.75% to 3.5% during the District's fiscal year 2017.

This schedule presents information on the District's portion of the net pension liability of CalSTRS in compliance with GASB 68.

Hillsborough City School District
Schedule of Changes in Total OPEB Liability
For the Fiscal Year Ended June 30, 2019

Fiscal Year Ended	2018	2019
Total OPEB liability		
Service cost	\$ 249,449	\$ 256,310
Interest	163,669	159,579
Changes of benefit terms	-	-
Differences between expected and actual experience	-	-
Changes of assumptions	-	185,526
Benefit payments	(164,367)	(170,942)
Implicit subsidy fulfilled	-	-
Net change in Total OPEB Liability	248,751	430,473
Total OPEB Liability - beginning	4,267,968	4,516,719
Total OPEB Liability - ending	<u>\$ 4,516,719</u>	<u>\$ 4,947,192</u>
Plan fiduciary net position		
Employer contributions	\$ 164,367	\$ 170,942
Employer implicit subsidy	-	-
Employee contributions	-	-
Net investment income	-	-
Difference between estimated and actual earnings	-	-
Benefit payments	(164,367)	(170,942)
Implicit subsidy fulfilled	-	-
Other	-	-
Administrative expense	-	-
Net change in plan fiduciary net position	-	-
Plan fiduciary net position - beginning	-	-
Plan fiduciary net position - ending	<u>\$ -</u>	<u>\$ -</u>
Net OPEB liability (asset)	\$ 4,516,719	4,947,192
Plan fiduciary net position as a percentage of the total OPEB liability	0.00%	0.00%
Covered Employee Payroll	\$ 17,131,760	\$ 18,324,903
Net OPEB liability as a percentage of covered employee payroll	26.36%	27.00%
Total OPEB liability as a percentage of covered employee payroll	26.36%	27.00%

Other Notes

GASB 75 requires a schedule of contributions for the last ten fiscal years, or for as many years as are available if less than ten years are available. GASB 75 was adopted as of June 30, 2018.

There were not changes in benefit terms.

There were no changes in trend rates or assumptions.

The discount rate was reduced from 3.8% in 2018 to 3.5% in 2019.

**SUPPLEMENTARY
INFORMATION**

***Nonmajor Governmental Funds
Combining Schedules***

Hillsborough City School DistrictCombining Balance Sheet
Nonmajor Governmental Funds
June 30, 2019

	Special Revenue Funds	Capital Projects Funds		
	Cafeteria Fund	Special Reserve for Capital Outlay Fund	Capital Facilities Fund	Totals
Assets				
Cash and investments	\$ 2,792	\$ 189,295	\$ 125,812	\$ 317,899
Accounts receivable	3,238	1,125	1,715	6,078
Total Assets	<u>\$ 6,030</u>	<u>\$ 190,420</u>	<u>\$ 127,527</u>	<u>\$ 323,977</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 808	\$ -	\$ 20,105.00	\$ 20,913
Unearned revenue	-	58,333	-	58,333
Total Liabilities	<u>808</u>	<u>58,333</u>	<u>20,105</u>	<u>79,246</u>
Fund balances:				
Restricted for:				
Capital projects	\$ -	\$ -	\$ 107,422	\$ 107,422
Cafeteria programs	5,222	-	-	5,222
Assigned:				
Deferred maintenance	-	132,087	-	132,087
Total Fund Balances	<u>5,222</u>	<u>132,087</u>	<u>107,422</u>	<u>244,731</u>
Total Liabilities and Fund Balances	<u>\$ 6,030</u>	<u>\$ 190,420</u>	<u>\$ 127,527</u>	<u>\$ 323,977</u>

Hillsborough City School District
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances
Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2019

	Special Revenue Fund	Capital Projects Funds		
	Cafeteria Fund	Special Reserve for Capital Outlay Fund	Capital Facilities Fund	Totals
Revenues:				
Other local	\$ 4,484	\$ 103,539	\$ 59,990	\$ 168,013
Total revenues	4,484	103,539	59,990	168,013
Expenditures:				
Pupil services:				
Food services	13,235	-	-	13,235
Plant services	-	-	82,130	82,130
Facilities acquisition and construction	-	-	101,638	101,638
Total expenditures	13,235	-	183,768	197,003
Excess (deficiency) of revenues over (under) expenditures	(8,751)	103,539	(123,778)	(28,990)
Other financing sources (uses):				
Transfers out	-	(80,000)	-	(80,000)
Total other financing sources (uses)	-	(80,000)	-	(80,000)
Changes in fund balances	(8,751)	23,539	(123,778)	(108,990)
Fund balances beginning	13,973	108,548	231,200	353,721
Fund balances ending	\$ 5,222	\$ 132,087	\$ 107,422	\$ 244,731

**COMPLIANCE
SECTION**

Hillsborough City School District

Organization (Unaudited)

June 30, 2019

The Hillsborough City School District was established August 14, 1911 and consists of an area comprising approximately 6.3 square miles. The District operates 3 elementary schools, and 1 middle school. There were no boundary changes during the year.

Governing Board

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Don Geddis	President	2022
Greg Dannis	Vice President	2020
An Chen	Clerk	2022
Gilbert Wai	Member	2022
Margi Power	Member	2020

Administration

Louann Carlomagno
Superintendent

Joyce Shen
Chief Business Official

Hillsborough City School District
Schedule of Average Daily Attendance
For the Fiscal Year Ended June 30, 2019

	Total ADA		Classroom Based	
	Second Period Report	Annual Report	Second Period Report	Annual Report
Regular ADA:				
Grades TK/K through three	544.19	545.16	544.19	545.16
Grades four through six	452.38	452.21	452.38	452.21
Grades seven and eight	308.49	307.96	308.49	307.96
Regular ADA Totals	1,305.06	1,305.33	1,305.06	1,305.33
Extended year Special education				
Grades TK/K through three	0.61	0.61	0.61	0.61
Grades four through six	0.26	0.26	0.26	0.26
Grades seven and eight	0.23	0.23	0.23	0.23
Special education - nonpublic, nonsect schools:				
Grades four through six	0.88	0.89	0.88	0.89
Extended year special education - nonpublic, nonsect schools:				
Grades four through six	0.06	0.06	0.06	0.06
Grades seven and eight	0.33	0.33	0.33	0.33
ADA Totals	1,307.43	1,307.71	1,307.43	1,307.71

Hillsborough City School District
Schedule of Instructional Time
For the Fiscal Year Ended June 30, 2019

Grade Level	Minutes Requirements	2019 Actual Minutes	(Unaudited) 2019 Original Scheduled Minutes	Actual Number of Days Traditional Calendar	(Unaudited) Scheduled Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Kindergarten	36,000	41,170	41,400	179	180	0	In compliance ⁽¹⁾
Grade 1	50,400	51,730	52,040	179	180	0	In compliance ⁽¹⁾
Grade 2	50,400	51,730	52,040	179	180	0	In compliance ⁽¹⁾
Grade 3	50,400	53,710	54,030	179	180	0	In compliance ⁽¹⁾
Grade 4	54,000	55,690	56,025	179	180	0	In compliance ⁽¹⁾
Grade 5	54,000	55,690	56,025	179	180	0	In compliance ⁽¹⁾
Grade 6	54,000	59,790	60,140	179	180	0	In compliance ⁽¹⁾
Grade 7	54,000	59,790	60,140	179	180	0	In compliance ⁽¹⁾
Grade 8	54,000	59,790	60,140	179	180	0	In compliance ⁽¹⁾

(1) The District has an approved Form J-13A, Request for Allowance of Attendance Due to Emergency Conditions, for school closure due to California wild fires. Pursuant to Education Code section 41422, 46200, 46391, 46392 and the California Code of Regulations the approved Form J-13A combined with attendance records were used to document compliance with instructional time laws.

School districts and charter schools must maintain their instructional minutes as defined in Education Code Section 46207. This schedule is required of all districts and charter schools, including basic aid districts.

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instruction time offered by the District and whether the District complied with the provisions of Education Code Sections 46200 through 46206. The District has met or exceeded its target funding.

Hillsborough City School District
Schedule of Charter Schools (Unaudited)
For the Fiscal Year Ended June 30, 2019

The purpose of this schedule is to list 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. There were no dependent or independent charter schools required to be reported by the District for the current fiscal year.

Hillsborough City School District
Schedule of Financial Trends and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2019

	(Budget) ⁽¹⁾			
	2020	2019	2018	2017
<u>General Fund</u>				
Revenues and other financial sources	\$ 30,970,659	\$ 31,588,610	\$ 29,036,933	\$ 27,842,880
Expenditures	30,715,657	30,476,617	28,032,698	27,847,551
Other uses and transfers (out)	15,000	-	-	-
Total outgo	30,730,657	30,476,617	28,032,698	27,847,551
Change in fund balance	240,002	1,111,993	1,004,235	(4,671)
Ending fund balance	\$ 8,380,744	\$ 8,140,742	\$ 7,028,749	\$ 6,024,514
Available reserves ⁽²⁾	\$ 7,675,314	\$ 5,594,420	\$ 4,845,959	\$ 2,207,456
Designated for economic uncertainty	\$ 1,845,939	\$ 1,830,697	\$ 1,684,062	\$ -
Unassigned fund balance	\$ 5,829,375	\$ 3,763,723	\$ 3,161,897	\$ 2,207,456
Available reserves as a percentage of total outgo	25%	18%	17%	8%
Total long-term debt	\$ 117,176,448	\$ 119,490,322	\$ 116,795,032	\$ 109,178,073
Average daily attendance at P-2	1,278	1,307	1,354	1,429

ADA has decreased by 122 over the past three years. The district anticipates an decrease of 29 ADA to remain level for 2020.

The general fund balance has increased by \$2,116,228 over the past three years and operated at a surplus in two out of the last three years. For a district this size, the state recommends available reserves of at least 3% of total general fund expenditures, transfers out and other uses (total outgo).

Total long-term debt has increased by \$10,312,249 over the past three years.

⁽¹⁾ Budget numbers are based on the first adopted budget of the fiscal year 2019/20

⁽²⁾ Available reserves consist of all unassigned fund balances in the general fund, which includes the reserve for economic uncertainties.

Hillsborough City School District
Reconciliation of Annual Financial and Budget Report (SACS)
to the Audited Financial Statements
For the Fiscal Year Ended June 30, 2019

	General Fund	Building Fund	Bond Interest & Redemption Fund	Other Nonmajor Governmental Funds
June 30, 2019 Annual Financial and Budget Report Fund Balances	\$ 6,357,447	\$ 1,837,348	\$ 3,005,469	\$ 2,028,026
Adjustments and Reclassifications: GASB 54 reclassifications	<u>1,783,295</u>	<u>-</u>	<u>-</u>	<u>(1,783,295)</u>
June 30, 2019 Audited Financial Statements Fund Balances	<u><u>\$ 8,140,742</u></u>	<u><u>\$ 1,837,348</u></u>	<u><u>\$ 3,005,469</u></u>	<u><u>\$ 244,731</u></u>

Hillsborough City School District
Notes to Compliance Section
For the Fiscal Year Ended June 30, 2019

1. PURPOSE OF SCHEDULES

A. Schedule of Average Daily Attendance

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

B. Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day and has not met its local control formula funding formula target. 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 46206 and whether the Charter School complied with Education Code Sections 47612 and 47612.5.

C. Schedule of Charter Schools

This schedule is provided to list 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.

D. 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.

E. Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balances of all funds reported on the SACS report to the audited financial statements.

**OTHER 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 *GOVERNMENT AUDITING STANDARDS***

Board of Trustees
Hillsborough City School District
Hillsborough, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hillsborough City School District (the District) as of and for the year ended June 30, 2019, 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 4, 2019.

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) to determine the 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 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws,



regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards*, and which is described in the schedule of findings and questioned costs as finding 2019-001.

The District's Response to Findings

The District's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

C & A LLP

December 4, 2019
San Jose, California



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON STATE PROGRAMS**

The Honorable Board of Trustees
Hillsborough City School District
Hillsborough, California

Compliance

We have audited the Hillsborough City School District's (the District) compliance with the types of compliance requirements described in the *2018-19 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel, that could have a direct and material effect on each of the District's state programs identified below for the year ended June 30, 2019.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each applicable program as identified in the State's audit guide, *2018-19 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2018-19 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. Those standards, and state audit, guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above, that could have a material effect on compliance with the state laws and regulations described in the schedule below, occurred. An audit includes examining, on a test basis, evidence supporting the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In connection with the compliance audit referred to above, we selected and tested transactions and records to determine the District's compliance with the state laws and regulations applicable to the following items:

<u>Description</u>	<u>Procedures Performed</u>
Local Education Agencies Other than Charter Schools:	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	No
Continuation Education	N/A
Instructional Time	Yes



CHAVAN & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS

<u>Description</u>	<u>Procedures Performed</u>
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	N/A
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	N/A
Middle or Early College High Schools	N/A
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Apprenticeship: Related and Supplemental Instruction	N/A
Comprehensive School Safety Plan	Yes
District of Choice	N/A
School Districts, County Offices of Education, and Charter Schools:	
California Clean Energy Jobs Act	Yes
After School Education and Safety Program:	
General Requirements	N/A
After School	N/A
Before School	N/A
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	N/A
Charter Schools:	
Attendance	N/A
Mode of Instruction	N/A
Nonclassroom-Based Instruction/Independent Study for Charter Schools	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 the audit procedures for the Independent Study program because the ADA was under the level that requires testing.

Opinion

In our opinion, Hillsborough City School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on State Programs for the fiscal year ended June 30, 2019.

Other Matter

The results of our auditing procedures disclosed an instance of noncompliance with the compliance requirements referred to above, which is required to be reported in accordance with *2018-19 Guide for*



CHAVAN & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS

Annual Audits of K-12 Local Education Agencies and State Compliance Reporting, and which is described in the accompanying schedule of findings and questioned costs as finding 2019-001.

District's Response to Findings

The District's responses to the compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District's responses were not subjected to the auditing procedures in the audit of compliance and, accordingly, we express no opinion on the responses.

C & A LLP

December 4, 2019
San Jose, California

FINDINGS AND RECOMMENDATIONS

Hillsborough City School District
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2019

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued Unmodified

Internal control over financial reporting:

Material weaknesses? Yes x No

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

Non-compliance material to financial statements noted? Yes x No

Federal Awards

The District did not spend \$750,000 or more in federal awards.

State Awards

Internal control over state programs:

Material weaknesses? Yes x No

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

Type of auditor's report issued on compliance over state programs: Unmodified

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

Section IV - State Award Findings and Questioned Costs

Finding 2019-001: Comprehensive School Safety Plan (40000)

Criteria or Specific Requirements: Pursuant to Education Code Section 32282, the District's school sites' comprehensive school safety plan shall include the development of comprehensive school safety plan and shall be evaluated at least once a year. As part of Education Code Section 32282(g), the California Department of Education (CDE) has posted a checklist for developing a comprehensive school safety plan which includes the mandate for the plan to be reviewed, updated, and approved by March 1st each year. The approval should be demonstrated with board or district superintendent signatures.

Hillsborough City School District
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2019

Condition: During testing of the District's school sites' comprehensive school safety plan(s), we noted that the District did not review and adopt its comprehensive school safety plan by March 1st as required by Education Code Section 32282.

Questioned Costs: None.

Effect: The District was not in compliance with the Education Code Section 32282.

Cause: The District did not have proper internal controls in place to ensure all parts of the Comprehensive School Safety Plan requirements were followed.

Recommendation: We recommend the District review over the Education Code 32282 requirements and the California Department of Education mandates related to this Education Code.

Corrective Action Plan: The District agrees with this recommendation and will be more diligent about following the CDE-developed checklist for reviewing, updating and approving the safety plan.

Hillsborough City School District
Schedule of Prior Year Findings and Recommendations
For the Fiscal Year Ended June 30, 2019

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

Section IV - State Award Findings and Questioned Costs

None