HILLSBOROUGH CITY SCHOOL DISTRICT
COUNTY OF SAN MATEO
HILLSBOROUGH, CALIFORNIA

AUDIT REPORT

JUNE 30, 2021

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

Hillsborough City School District
County of San Mateo

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Hillsborough City School District
County of San Mateo

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Chavan and Associates, llp
Certified Public Accountants

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, 2021, 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.

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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, 2021 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, 2021, 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.

Other Matters

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 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 *2020-21 Guide for Annual Audits of K-12 Local Education Agencies and State*

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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 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 November 20, 2021 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

November 20, 2021
San Jose, California

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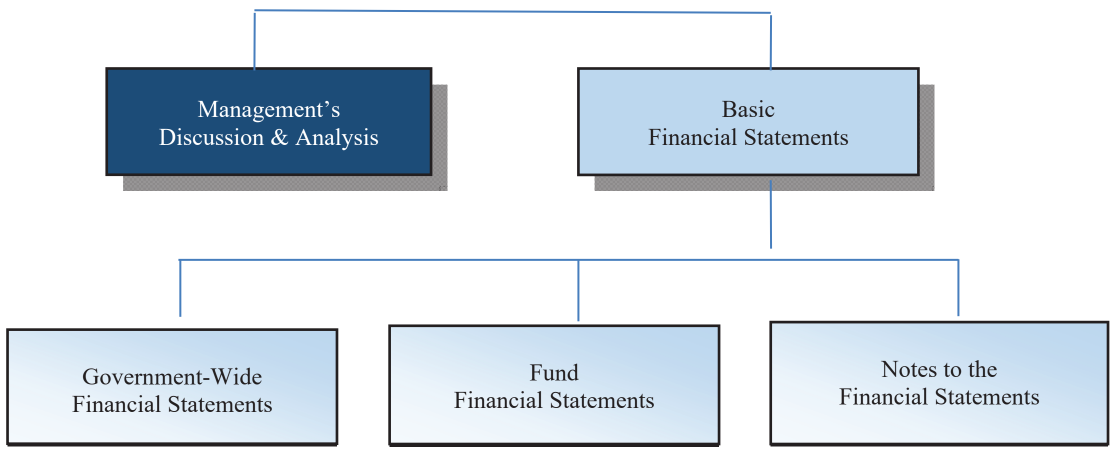
Management's Discussion and Analysis

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, 2021. 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, 2021 were as follows:

- Total net position decreased by $3,503,411, or 6.98%, which included a decrease in unrestricted net position of $4,012,178, from June 30, 2020 to June 30, 2021, mainly due to changes in assumptions in employee benefit plans and accreted interest on general obligation bonds.
- The District recorded deferred outflows of resources of $22,337,736 and deferred inflows of resources of $2,370,543 as required by GASB pension and 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 $40,020,519 in government-wide expenses which is 110% of total government-wide revenues. Program specific revenues in the form of operating grants and contributions and charges for services accounted for $3,118,692, or 8.74%, of total revenues of $36,473,592.
- General revenue of $33,284,900 which includes property taxes, unrestricted federal and state grants and LCFF sources, was 91.26% of total revenues in 2021 versus 92.66% in 2020.
- The fund balances of all governmental funds increased by $332,749, which is a 2.6% increase from 2020.
- Total governmental fund revenues and expenditures totaled $36,569,835 and $36,280,602, 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.

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 2020 - 2021?" 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, Special Reserve for Capital Outlay 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.

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, 2021 as compared to June 30, 2020:

During the year, deferred outflows of resources decreased by 3.82%, deferred inflows of resources decreased by 34.23%, and long-term liabilities increased by 1.46% because of changes in benefit obligations and actuarial assumptions related to employee benefit plans and the issuance and defeasance of general obligation bonds.

Table 1 - Summary of Statement of Net Position

Description	2021	2020	Change	Percentage Change
Assets				
Current Assets	$ 13,699,165	$ 13,137,329	$ 561,836	4.28%
Capital Assets	45,068,103	46,990,507	(1,922,404)	-4.09%
Total Assets	**$ 58,767,268**	**$ 60,127,836**	**$ (1,360,568)**	**-2.26%**
Total Deferred Outflows of Resources	**$ 22,337,736**	**$ 23,190,035**	**$ (852,299)**	**-3.82%**
Liabilities				
Current Liabilities	$ 974,845	$ 769,758	$ 205,087	26.64%
Long-term Liabilities	131,483,639	129,586,693	1,896,946	1.46%
Total Liabilities	**$ 132,458,484**	**$ 130,356,451**	**$ 2,102,033**	**1.61%**
Total Deferred Inflows of Resources	**$ 2,370,543**	**$ 3,182,032**	**$ (811,489)**	**-34.23%**
Net Position				
Net Investment in Capital Assets	$ (17,185,275)	$ (17,421,144)	$ 235,869	1.35%
Restricted	4,541,729	4,268,831	272,898	6.39%
Unrestricted	(41,080,477)	(37,068,299)	(4,012,178)	-10.82%
Total Net Position	**$ (53,724,023)**	**$ (50,220,612)**	**$ (3,503,411)**	**-6.98%**

Table 2 shows the changes in net position for fiscal year 2021 as compared to 2020:

Table 2 - Summary of Changes in Statement of Activities

Description	2021	2020	Change	Percentage Change
Revenues				
Program revenues	$ 3,188,692	$ 2,590,724	$ 597,968	23.08%
General revenues:				
Property taxes	28,796,409	27,522,529	1,273,880	4.63%
Grants and entitlements - unrestricted	685,653	841,015	(155,362)	-18.47%
Other	3,802,838	4,343,341	(540,503)	-12.44%
Total Revenues	36,473,592	35,297,609	1,175,983	3.33%
Program Expenses				
Instruction	26,097,996	25,002,838	1,095,158	4.38%
Instruction-related services	3,757,433	3,735,038	22,395	0.60%
Pupil services	1,346,555	1,258,832	87,723	6.97%
General administration	2,898,768	2,964,546	(65,778)	-2.22%
Plant services	3,431,902	2,946,654	485,248	16.47%
Community services	322,700	308,381	14,319	4.64%
Other outgo	169,922	194,283	(24,361)	-12.54%
Interest on long-term debt	1,995,243	4,420,287	(2,425,044)	-54.86%
Total Expenses	40,020,519	40,830,859	(810,340)	-1.98%
Change in Net Position	(3,546,927)	(5,533,250)	1,986,323	35.90%
Beginning Net Position	(50,220,612)	(43,901,488)	(6,319,124)	-14.39%
Prior Period Adjustments	43,516	(785,874)	829,390	105.54%
Ending Net Position	**$ (53,724,023)**	**$ (50,220,612)**	**$ (3,503,411)**	**-6.98%**

The District's expenses for instructional services were 75% of total expenses in 2020-21 as compared to 70% in 2019-20. The purely administrative activities of the District accounted for 7% of total costs in 2020-21 as compared to 7% in 2019-20. Interest on long-term debt represented 5% of total expenses in 2020-21 as compared to 11% in 2019-20. Total expenses were 110% of revenue in 2020-21 versus 116% in 2019-20, which is reflected in the deficit change in net position of $3,546,927 in 2020-21 versus a deficit change in net position of $5,533,250 in 2019-20. In regard to revenue, program revenues were 8% of total revenues in 2020-21 and 7% of total revenues in 2019-20.

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	2021	2020	Change	Percentage Change
Instruction	$ 23,662,671	$ 22,914,143	$ 748,528	3.3%
Instruction-related services	3,577,333	3,536,389	40,944	1.2%
Pupil services	1,258,915	1,176,840	82,075	7.0%
General administration	2,789,091	2,924,765	(135,674)	-4.6%
Plant services	3,203,568	2,943,428	260,140	8.8%
Community services	309,222	291,762	17,460	6.0%
Other outgo	35,784	32,521	3,263	10.0%
Interest on long-term debt	1,995,243	4,420,287	(2,425,044)	-54.9%
Total Net Cost of Services	**$ 36,831,827**	**$ 38,240,135**	**$ (1,408,308)**	**-3.68%**

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.

THE DISTRICT'S FUNDS

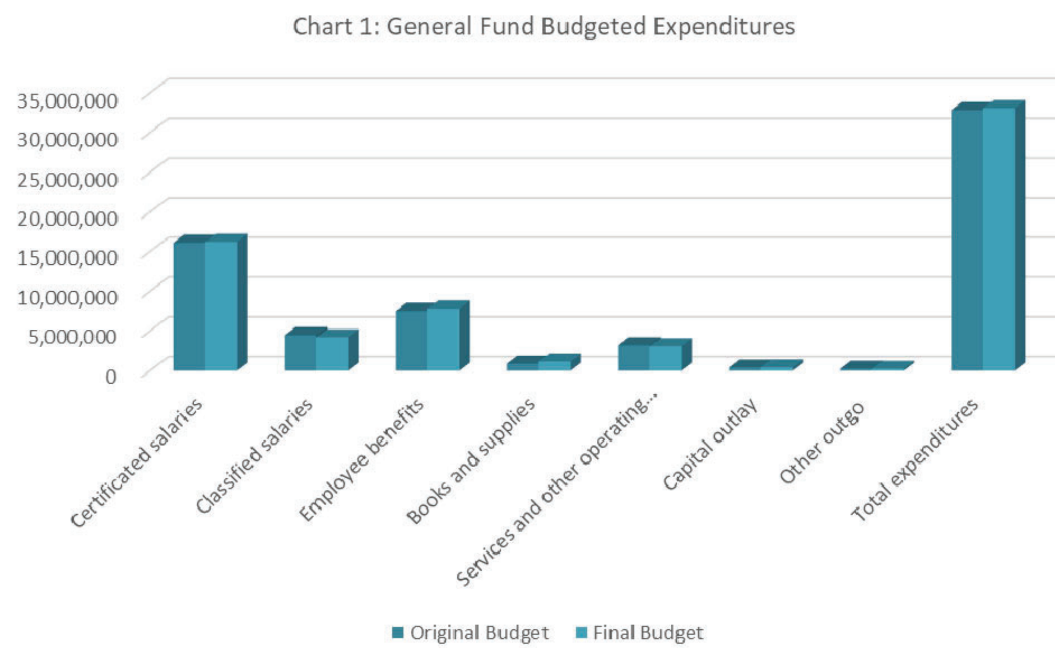
Table 4 provides an analysis of the District's fund balances and the total change in fund balances from the prior year.

Table 4 - Summary of Fund Balances				
Description	**2021**	**2020**	**Change**	**Percentage Change**
General Fund	$ 8,355,855	$ 8,331,594	$ 24,261	0.3%
Building Fund	524,760	649,765	(125,005)	-19.2%
Special Reserve Fund for Capital Outlay	168,817	171,542	(2,725)	-1.6%
Bond Interest and Redemption Fund	3,713,930	3,402,912	311,018	9.1%
Nonmajor Funds	138,958	13,758	125,200	910.0%
Total Fund Balances	**$12,902,320**	**$12,569,571**	**$ 332,749**	**2.6%**

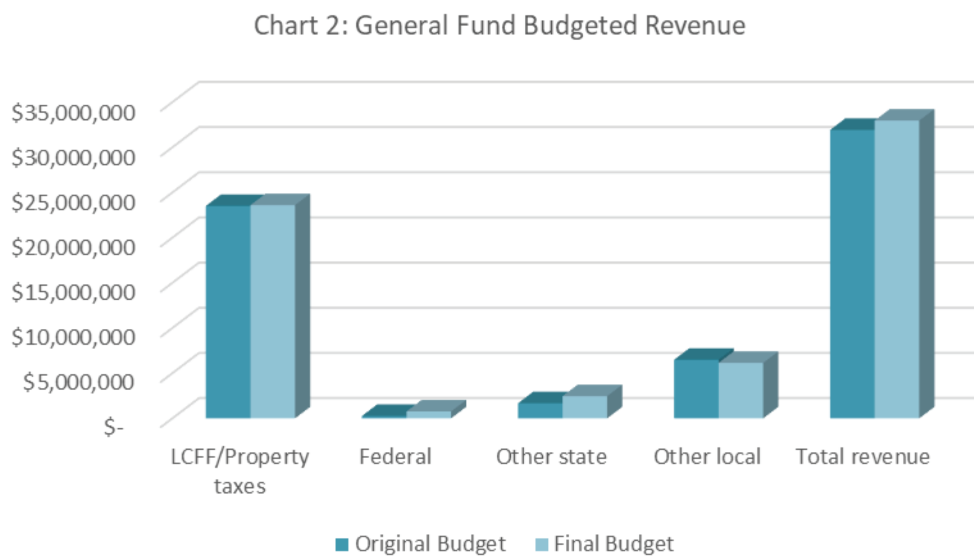
FINANCIAL ANALYSIS OF THE GENERAL FUND AND BUDGETING HIGHLIGHTS

The District's budget is prepared according to California law and in the modified accrual basis of accounting. During the course of the 2020-21 fiscal year, the District revised its General Fund budget twice, at 1st Interim and 2nd interim. The overall increase in expenditures of $251,451 was due to increases in certificated salaries, benefits and books and supplies. The General Fund budget basis revenue increased by $1,038,396 from original to final budgets.

The following summarizes the District's budgeted expenditures in the General Fund.

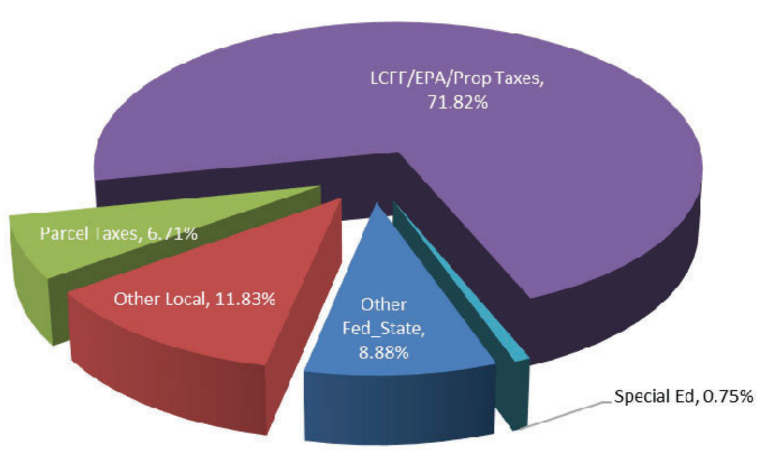


The following summarizes the District's budgeted revenue in the General Fund:



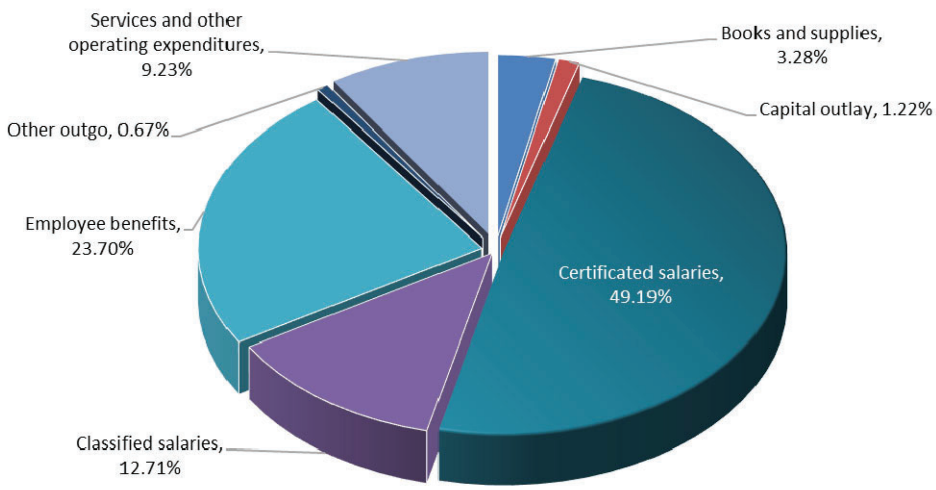
The District is community-funded basic aid, which means that the District relies on local property taxes rather than State aid for revenue. Total General Fund revenues for 2020-21 increased 3.56% from the prior year to $32,857,349. Total LCFF sources increased by $1,104,064 from prior year, almost all from local property taxes. Special Education funding decreased by $3,597. Total other federal and state resources increased by $559,562 from prior year, which is net of a decrease of $321,907 from District's STRS on-behalf amounts of $1,840,265 in 2019-20 to $1,518,358 in 2020-21. In other words, the District's actual other federal and state resources increased by $881,469 from prior year. Locally generated revenues amounted to 90% 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)



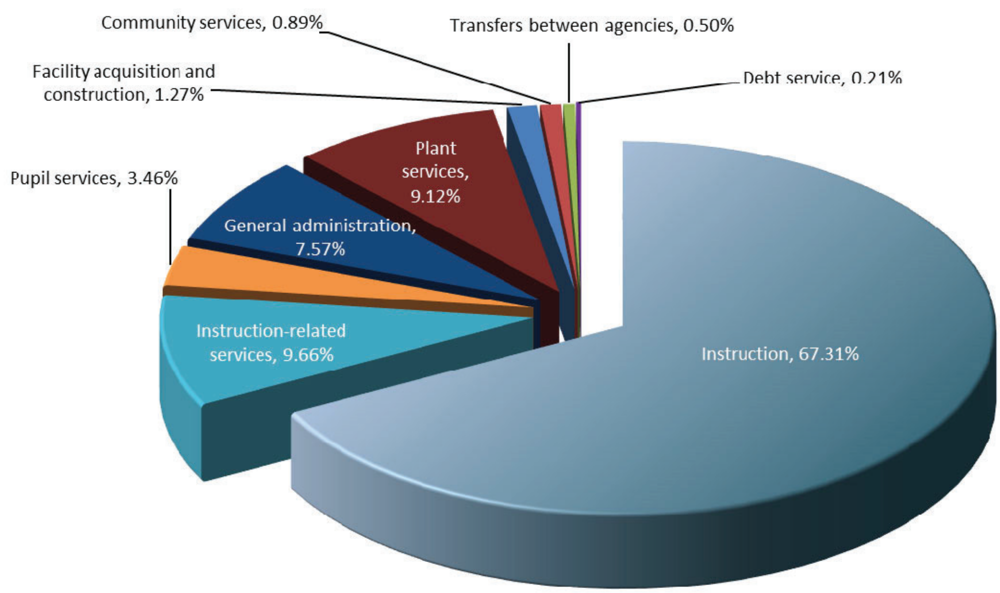
Expenditures increased 4.3% over the prior year. As is common with virtually all school districts, the majority of expenditures in the General Fund were for salaries and benefits. Of the $32,979,891 expended during 2020-21, 86% was spent on salaries and benefits. See the charts below for a breakdown 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 77% 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)



CAPITAL ASSETS

Table 5 summarizes the District's capital assets over the past two years.

Table 5 - Summary of Capital Assets Net of Depreciation

Description	2021	2020	Change	Percentage Change
Land	$ 228,711	$ 228,711	$ -	0.00%
Work-in-Progress	1,900,275	1,476,282	423,993	28.72%
Land Improvements	294,665	351,532	(56,867)	-16.18%
Buildings and Improvements	42,031,910	44,379,961	(2,348,051)	-5.29%
Equipment	612,542	554,021	58,521	10.56%
Total Capital Assets - Net	**$ 45,068,103**	**$ 46,990,507**	**$ (1,922,404)**	**-4.09%**

LONG TERM LIABILITIES

Table 6 summarizes the District's long-term liabilities over the past two years.

Table 6 - Summary of Long-term Liabilities

Description	2021	2020	Change	Percentage Change
General Obligation Bonds	$ 85,975,526	$ 87,584,932	$ (1,609,406)	-1.84%
Net Pension Liabilities	35,653,271	32,576,257	3,077,014	9.45%
Total OPEB Liability	9,608,553	9,160,507	448,046	4.89%
Compensated Absences	246,289	264,997	(18,708)	-7.06%
Total Long-term Liabilities	**$131,483,639**	**$ 129,586,693**	**$ 1,896,946**	**1.46%**

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.
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The District is ever aware of its reliance on local support. Of total revenues, 10.4% 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, 2021

	Governmental Activities
Assets	
Cash and investments	$ 12,951,502
Receivables	581,894
Prepaid expenses	165,769
Capital assets - net	45,068,103
Total Assets	$ 58,767,268
Deferred Outflows of Resources	
Pension adjustments	$ 8,655,859
OPEB adjustments	2,889,229
Deferred loss on early retirement of long-term debt	10,792,648
Total Deferred Outflows of Resources	$ 22,337,736
Liabilities	
Accounts payable	$ 630,178
Accrued interest	178,000
Long-term liabilities:	
Due within one year	3,044,093
Due after one year	128,439,546
Total Liabilities	$ 132,458,484
Deferred Inflows of Resources	
Pension adjustments	$ 2,370,543
Total Deferred Inflows of Resources	$ 2,370,543
Net Position	
Net investment in capital assets	$ (17,185,275)
Restricted for:	
Educational programs	164,081
Debt service	3,713,930
Capital projects	655,630
Cafeteria programs	8,088
Unrestricted	(41,080,477)
Total Net Position	$ (53,724,023)

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, 2021

		Program Revenues		Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Instruction	$ 26,097,996	$ 138,252	$ 2,297,073	$ (23,662,671)
Instruction-related services:				
Supervision of instruction	1,674,104	6,307	87,995	(1,579,802)
Instruction library, media and technology	141,207	-	6,854	(134,353)
School site administration	1,942,122	-	78,944	(1,863,178)
Pupil services:				
Home-to-school transportation	97,539	1,171	-	(96,368)
Food services	3,505	-	-	(3,505)
All other pupil services	1,245,511	22	86,447	(1,159,042)
General administration:				
Data processing	848,612	-	74,461	(774,151)
All other general administration	2,050,156	-	35,216	(2,014,940)
Plant services	3,431,902	-	228,334	(3,203,568)
Community services	322,700	-	13,478	(309,222)
Other outgo	169,922	81,589	52,549	(35,784)
Interest on long-term debt	1,995,243	-	-	(1,995,243)
Total governmental activities	$ 40,020,519	$ 227,341	$ 2,961,351	(36,831,827)
General revenues:				
Taxes and subventions:				
Taxes levied for general purposes				23,175,965
Taxes levied for debt service				3,415,473
Taxes levied for other specific purposes				2,204,971
Federal and state aid not restricted to specific purposes				685,653
Interest and investment earnings				112,413
Miscellaneous				3,690,425
Total general revenues				33,284,900
Change in net position				(3,546,927)
Net position beginning				(50,220,612)
Prior period adjustment - GASB 84				43,516
Net position beginning, as adjusted				(50,177,096)
Net position ending				$ (53,724,023)

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

Hillsborough City School District
Governmental Funds
Balance Sheet
June 30, 2021

	General Fund	Building Fund	Special Reserve for Capital Outlay Fund	Bond Interest & Redemption Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets						
Cash and investments	$ 8,247,896	$ 533,446	$ 334,650	$ 3,705,722	$ 129,788	$ 12,951,502
Accounts receivable	562,298	1,384	834	8,208	9,170	581,894
Prepaid expenses	165,769	-	-	-	-	165,769
Total Assets	$ 8,975,963	$ 534,830	$ 335,484	$ 3,713,930	$ 138,958	$ 13,699,165
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	$ 620,108	$ 10,070	$ -	$ -	$ -	$ 630,178
Unearned revenue	-	-	166,667	-	-	166,667
Total Liabilities	620,108	10,070	166,667	-	-	796,845
Fund balances:						
Nonspendable:						
Revolving fund	5,000	-	-	-	-	5,000
Prepaid expenditures	165,769	-	-	-	-	165,769
Restricted:						
Educational programs	164,081	-	-	-	-	164,081
Cafeteria programs	-	-	-	-	8,088	8,088
Debt service	-	-	-	3,713,930	-	3,713,930
Capital projects	-	524,760	-	-	130,870	655,630
Committed:						
Deferred maintenance	-	-	168,817	-	-	168,817
Compensated absences	246,746	-	-	-	-	246,746
Educational programs	294,746	-	-	-	-	294,746
Other postemployment benefits	1,392,581	-	-	-	-	1,392,581
Unassigned:						
Reserve for economic uncertainties	2,563,555	-	-	-	-	2,563,555
Unappropriated	3,523,377	-	-	-	-	3,523,377
Total Fund Balances	8,355,855	524,760	168,817	3,713,930	138,958	12,902,320
Total Liabilities and Fund Balances	$ 8,975,963	$ 534,830	$ 335,484	$ 3,713,930	$ 138,958	$ 13,699,165

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, 2021

Total fund balances - governmental funds		$ 12,902,320
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 $83,830,303 and the accumulated depreciation is $38,762,200.		45,068,103
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:		(178,000)
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		(258,290)
Difference between actual and expected earnings		803,468
Change in assumptions		2,639,930
Differences in proportionate share of contributions		(927,523)
Changes in employer's proportionate shares		608,995
Contribution subsequent to measurement date		3,418,736
OPEB adjustments:		
Difference between actual and expected experience		665,343
OPEB change in assumptions		2,223,886
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	$ 85,975,526	
Loss on early retirement of long-term debt	(10,792,648)	
Net pension liabilities	35,653,271	
Total OPEB liability	9,608,553	
Compensated absences	246,289	(120,690,991)
Total net position - governmental activities		$ (53,724,023)

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, 2021

	General Fund	Building Fund	Special Reserve for Capital Outlay Fund	Bond Interest & Redemption Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:						
LCFF/Propert Taxes	$ 23,596,765	$ -	$ -	$ -	$ -	$ 23,596,765
Federal	766,764	-	-	-	-	766,764
Other state	2,400,410	-	-	5,290	-	2,405,700
Other local	6,116,697	7,142	$ 77,275	3,457,714	141,778	9,800,606
Total revenues	32,880,636	7,142	77,275	3,463,004	141,778	36,569,835
Expenditures:						
Instruction	22,197,933	-	-	-	-	22,197,933
Instruction-related services:						
Supervision of instruction	1,419,989	-	-	-	-	1,419,989
Instruction library, media and technology	116,807	-	-	-	-	116,807
School site administration	1,650,118	-	-	-	-	1,650,118
Pupil services:						
Home-to-school transportation	75,748	-	-	-	-	75,748
Food services	-	-	-	-	3,197	3,197
All other pupil services	1,066,373	-	-	-	-	1,066,373
General administration:						
Data processing	743,086	-	-	-	-	743,086
All other general administration	1,754,993	-	-	-	-	1,754,993
Plant services	3,007,301			-	-	3,007,301
Facility acquisition and construction	419,263	132,147	-	-	13,381	564,791
Community services	293,600	-	-	-	-	293,600
Transfers between agencies	164,959	-	-	-	-	164,959
Debt service:						
Principal	56,429	-	-	2,737,986	-	2,794,415
Interest and fees	13,292	-	-	414,000	-	427,292
Total expenditures	32,979,891	132,147	-	3,151,986	16,578	36,280,602
Excess (deficiency) of revenues over (under) expenditures	(99,255)	(125,005)	77,275	311,018	125,200	289,233
Other financing sources (uses):						
Transfers in	80,000	-	-	-	-	80,000
Transfers out	-	-	(80,000)	-	-	(80,000)
Total other financing sources (uses)	80,000	-	(80,000)	-	-	-
Changes in fund balances	(19,255)	(125,005)	(2,725)	311,018	125,200	289,233
Prior period adjustment - GASB 84	43,516	-	-	-	-	43,516
Fund balances beginning	8,331,594	649,765	171,542	3,402,912	13,758	12,569,571
Fund balances ending	$ 8,355,855	$ 524,760	$ 168,817	$ 3,713,930	$ 138,958	$ 12,902,320

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, 2021

Total net change in fund balances - governmental funds		$	289,233
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 $646,124 was less than depreciation expense of $2,472,286 in the period.			(1,826,163)
Governmental funds do not recognize expenses, gains and losses related to impairments and write-offs. However, in the government-wide statement of activities and changes in net position, these items are recognized when incurred.			(96,242)
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	$ 2,737,986		
Amortization of loss on refunding	(463,371)		
Accreted Interest	(1,128,580)		1,146,035
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.			24,000
In governmental funds, adjustments to pension plan estimates 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.			(2,124,897)
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.			18,708
In governmental funds, adjustments to OPEB plan estimates 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.			(977,601)
Change in net position of governmental activities		$	(3,546,927)

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

Notes to the Basic Financial Statements

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.

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.

D. <u>Basis of Accounting</u>

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, 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 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 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 *Special Reserve Fund for Capital Outlay Projects* is used to account for general fund resources accumulated for capital outlay.

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.

F. <u>Budgets and Budgetary Accounting</u>

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.

G. <u>Encumbrances</u>

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. <u>Benefit Plans</u>

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 for the CalPERS and STRS valuations:

Valuation Date	June 30, 2019
Measurement Date	June 30, 2020
Measurement Period	July 1, 2019 to June 30, 2020

For this period, the following time frames were used for the defined contribution plan which is follows the guidance of GASB 73:

Valuation Date	July 1, 2019
Measurement Date	June 30, 2021
Measurement Period	July 1, 2020 to June 30, 2021

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	July 1, 2019
Measurement Date	June 30, 2021
Measurement Period	July 1, 2020 to June 30, 2021

I. Assets, Liabilities, and Equity

a) <u>Cash and Investments</u>

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

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.

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:

Assets	Years
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 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.

- *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. 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.

Debt Service restrictions reflect the cash balances in the debt service funds that are restricted for debt service payments by debt covenants, reduced by outstanding bond premiums, when applicable.

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.

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.

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.

J. Implemented Accounting Pronouncements

GASB Statement No. 84, "Fiduciary Activities." Issued in January 2017, this statement establishes criteria for identifying fiduciary activities for accounting and financial reporting purposes and describes four fiduciary funds that should be reported, if applicable. The statement is effective beginning fiscal year 2021. Items previously reported as part of the agency fund classification of the Fiduciary Funds statements were reviewed to evaluate if they met the new custodial funds criteria. The District included $43,516 related to its student bond accounts in the general fund to reclassify student body funds previously reported as Agency funds. The student body funds were evaluated to determine if they were custodial funds as identified by GASB 84, but did not meet the definition of custodial funds and were identified as non-fiduciary.

K. Upcoming Accounting and Reporting Changes

The District is currently analyzing its accounting practices to determine the potential impact on the financial statements of the following recent GASB Statements:

GASB Statement No. 87, "Leases." Issued in June 2017, this statement establishes standards of accounting and financial reporting for leases by lessees and lessors. It provides guidance on accounting treatment of lease assets, lease liability, short-term leases, certain regulated leases, measurement for leases other than short-term leases and contracts that transfer ownership, subleases, lease-leaseback transactions, intra-entity leases, and leases between related parties. The statement will be effective beginning fiscal year 2022.

GASB Statement No. 91, "Conduit Debt Obligations." Issued in May 2019, this statement provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The statement will be effective beginning fiscal year 2023. GASB Statement No. 92, "Omnibus 2020." Issued in January 2020, this statement was issued for clarity and consistency by addressing practice issues identified from the implementation and application of certain GASB statements. The statement will be effective beginning fiscal year 2022.

GASB Statement No. 93, "Replacement of Interbank Offered Rates." Issued in March 2020, this statement is to address accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR) such as the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021. The statement will be effective beginning fiscal year 2022.

GASB Statement No. 94, "Public-Private and Public-Public Partnerships and Availability Payment Arrangements." Issued in March 2020, this statement is to improve financial reporting by establishing the definitions of public-private and public-public partnership arrangements (PPPs) and available payment arrangement (APAs) and providing uniform guidance on accounting and financial reporting for transactions that meet those definitions. The statement will be effective beginning fiscal year 2023.

GASB Statement No. 96, "Subscription-Based Information Technology Arrangements." Issued in May 2020, the statement provides guidance on the accounting and financial reporting for subscription based information technology arrangements (SBITAs) for governments by (1) defining a SBITA, (2) establishing that a SBITA results in a right-to-use subscription asset-an intangible asset-and a corresponding subscription liability, (3) providing the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA, and (4) requiring note disclosures regarding a SBITA. The statement will be effective beginning fiscal year 2023.

GASB Statement No. 97, "Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32." Issued in June 2020, the statement will result in more consistent financial reporting of defined contribution pension plans, defined contribution OPEB plans, and other employee benefit plans (e.g., certain Section 457 plans), while mitigating the costs associated with reporting those plans. The statement will be effective beginning fiscal year 2022.

2. CASH AND INVESTMENTS

A summary of cash and investments as of June 30, 2021 is as follows:

Description	Carrying Amount	Fair Value
Government-Wide Statements:		
Cash with fiscal agent	$ 878	$ 878
Cash in revolving funds	48,615	48,615
Local Agency Investment Fund	1,900	1,900
Cash with County	12,900,109	12,947,839
Total Cash and Investments	$ 12,951,502	$ 12,999,233

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, 2021, 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.
- 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.

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 $6.64 billion and an amortized book value of $6.53 billion.

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 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, 2021:

Description	General Fund	Building Fund	Special Res. For Res. For Capital Outlay	Bond Interest Redemption	Nonmajor Funds	Total
Federal Government	$ 294,964	$ -	$ -	$ -	$ -	$ 294,964
State Government	137,096	-	-	-	-	137,096
Other resources	130,238	1,384	834	8,208	9,170	149,834
Total Accounts Receivable	$ 562,298	$ 1,384	$ 834	$ 8,208	$ 9,170	$ 581,894

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, 2021, the District did not have any interfund payables and receivables to report.

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, 2021 the District transferred $80,000 from the Special Reserve Fund for Capital Outlay Projects to the General Fund.

5. CAPITAL ASSETS AND DEPRECIATION

Capital asset activities for the year ended June 30, 2021 were as follows:

Capital Assets	Balance July 01, 2020	Additions	Adjustments/ Deletions	Balance June 30, 2021
Land - not depreciable	$ 228,711	$ -	$ -	$ 228,711
Construction in Progress - not depreciable	1,476,282	523,270	(99,277)	1,900,275
Land Improvements	1,814,365	-	-	1,814,365
Buildings and Improvements	77,489,724	-	-	77,489,724
Furniture and Equipment	2,274,374	122,854	-	2,397,228
Total capital assets	83,283,456	646,124	(99,277)	83,830,303
Less accumulated depreciation for:				
Land Improvements	1,462,833	56,867	-	1,519,700
Buildings and Improvements	33,109,763	2,344,995	3,056	35,457,814
Furniture and Equipment	1,720,353	70,424	(6,091)	1,784,686
Total accumulated depreciation	36,292,949	2,472,286	(3,035)	38,762,200
Total capital assets - net depreciation	$ 46,990,507	$ (1,826,162)	$ (96,242)	$ 45,068,103

Depreciation expense was charged to the following governmental activities:

Instruction	$ 1,722,134
Supervision of instruction	117,207
Instruction library, media and technology	13,138
School site administration	132,908
Home-to-school transportation	14,488
All other pupil services	76,324
Community services	20,267
All other general administration	125,955
Data process services	33,882
Plant services	215,986
Total depreciation expense	$ 2,472,286

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, 2021:

Description	Balance July 01, 2020	Additions	Adjustments & Deletions	Balance June 30, 2021	Due Within One Year
General Obligation Bonds	$ 87,584,932	$ 1,189,160	$ 2,798,566	$ 85,975,526	$ 3,044,093
Net Pension Liabilities	32,576,257	12,371,655	9,294,641	35,653,271	-
Total OPEB Liability	9,160,507	3,980,162	3,532,116	9,608,553	-
Compensated Absences	264,997	-	18,708	246,289	-
Total Long-term Liabilities	$ 129,586,693	$ 17,540,977	$ 15,644,031	$ 131,483,639	$ 3,044,093

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.

Bonds Payable

The following summarizes the bonds outstanding as of June 30, 2021:

Bond	Maturity Date Sept 1,	Interest Rate %	Original Issue	Bonds Outstanding July 01, 2020	Adjustments Accretion/ Issued	Adjustments & Redeemed	Bonds Outstanding June 30, 2021
2002 GOB Series B	2031	4.74-4.88	$ 28,501,422	$ 12,011,422	$ -	$ -	$ 12,011,422
2002 GOB Series C	2045	2.35-7.3	22,680,012	507,425	-	29,420	478,005
2002 GOB Series D	2035	2.62	2,118,566	2,118,566	-	118,566	2,000,000
2012 Refunding Bonds	2027	20-2.57	8,850,000	1,130,000	-	530,000	600,000
2016A Refunding Bonds	2022	2-4	9,390,000	5,265,000	-	1,570,000	3,695,000
2016B Refunding Bonds	2022	2-4	2,345,000	1,375,000	-	430,000	945,000
2020 Refunding Bonds	2040	.49-3.386	53,910,045	53,910,045	-	60,000	53,850,045
Subtotal General Obligation Bonds			127,795,045	76,317,458	-	2,737,986	73,579,472
Accreted Interest			85,581,479	11,267,474	1,189,160	60,580	12,396,054
Total General Obligation Bonds			$ 213,376,524	$ 87,584,932	$ 1,189,160	$ 2,798,566	$ 85,975,526

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

Fiscal Year Ending June 30,	Principal	Interest	Total
2022	$ 3,044,093	$ 504,813	$ 3,548,906
2023	3,356,072	264,420	3,620,492
2024	2,311,422	1,590,148	3,901,570
2025	2,414,529	1,743,858	4,158,387
2026	2,519,883	1,907,596	4,427,479
2027-2031	11,030,595	15,839,390	26,869,985
2032-2036	23,059,542	13,635,916	36,695,458
2037-2041	25,843,336	20,711,664	46,555,000
Total Debt Service	$ 73,579,472	$ 56,197,805	$ 129,777,277

7. SUMMARY OF PENSION PLAN BALANCES

The following schedule summarizes the pension balances by plan:

	Defined Benefit Plans		Defined Contribution Plan	Total
	PERS	STRS		
Deferred outflows of resources	$ 2,214,614	$ 6,384,864	$ 56,382	$ 8,655,860
Deferred inflows of resources	$ 229,829	$ 2,140,714	$ -	$ 2,370,543
Net pension liabilities	$ 8,739,461	$ 26,165,430	$ 748,380	$ 35,653,271
Pension expense	$ 1,950,080	$ 5,095,013	$ 48,453	$ 7,093,546

8. 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.

The Plans' provisions and benefits in effect at June 30, 2021, 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	20.700%	20.700%

(1) Monthly benefit is a product of benefit factor, years of service, and final compensation

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, 2021, 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, 2021 the District's contributions were as follows:

	CalPERS
Employer Contributions	$ 853,849

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

As of June 30, 2021, 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)
CalPERS	$ 8,739,461

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, 2020, 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, 2019 rolled forward to June 30, 2020 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, 2020 and 2021 was as follows:

	CalPERS
Proportion - June 30, 2020	0.02535%
Proportion - June 30, 2021	0.02848%
Change - Increase/(Decrease)	0.00314%

For the year ended June 30, 2021, the District recognized pension expense of $1,950,080 for the Plan.

At June 30, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	CalPERS	
	Deferred Outflows of Resources	**Deferred Inflows of Resources**
Changes of Assumptions	$ 32,048	$ -
Differences between Expected and Actual Experience	433,450	-
Differences between Projected and Actual Investment Earnings	181,928	-
Differences between Employer's Contributions and Proportionate Share of Contributions	-	201,351
Change in Employer's Proportion	713,339	28,478
Pension Contributions Made Subsequent to Measurement Date	853,849	-
Total	$ 2,214,614	$ 229,829

The District reported $853,849 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, 2022.

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
2022	$ 375,385
2023	369,523
2024	285,709
2025	100,317
2026	-
Thereafter	-
Total	$ 1,130,934

Actuarial Assumptions - The total pension liabilities in the June 30, 2019 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2019
Measurement Date	June 30, 2020
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 entry 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, 2020 based on June 30, 2019 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% investment 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 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. 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	100.00%		

(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:

	CalPERS
1% Decrease	6.15%
Net Pension Liability	$ 12,564,568
Current	7.15%
Net Pension Liability	$ 8,739,461
1% Increase	8.15%
Net Pension Liability	$ 5,564,813

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

9. 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, 2021, 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	16.150%	16.150%
Required State contribution rates	10.328%	10.328%

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.

For the year ended June 30, 2021, the District contributions were as follows.

	CalSTRS
Employer Contributions	$ 2,564,887
State Contributions	1,518,358
Total	$ 4,083,245

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

As of June 30, 2021, 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	$ 26,165,430
State	13,488,279
Total	**$ 39,653,709**

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, 2020, 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, 2019 rolled forward to June 30, 2020 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 10.47 percent of the members' creditable earnings from the fiscal year ending in the prior calendar year. 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, 2020 and 2021 was as follows:

	CalSTRS
Proportion - June 30, 2020	0.02700%
Proportion - June 30, 2021	0.02700%
Change - Increase/(Decrease)	0.00000%

For the year ended June 30, 2021, the District recognized pension expense of $5,095,013 for the Plan, including pass-through expenses from the state of $1,459,835.

At June 30, 2021, 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	$ 2,551,500	$ -
Differences between Expected and Actual Experience	46,170	737,910
Differences between Projected and Actual Investment Earnings	621,540	-
Differences between Employer's Contributions and Proportionate Share of Contributions	13,495	739,667
Change in Employer's Proportion	587,271	663,137
Pension Contributions Made Subsequent to Measurement Date	2,564,887	-
Total	$ 6,384,863	$ 2,140,714

The District reported $2,567,887 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, 2022. 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 CalSTRS**
2022	$ 1,647
2023	642,897
2024	1,003,151
2025	163,994
2026	(87,407)
Thereafter	(45,018)
Total	$ 1,679,264

Actuarial Assumptions - The total pension liabilities in the June 30, 2020 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2019
Measurement Date	June 30, 2020
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

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.

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 Real Rate of Return (a) (b)
Global Equity	42.00%	4.75%
Private Equity	13.00%	6.25%
Real Estate	15.00%	3.55%
Inflation Sensitive	6.00%	3.25%
Fixed Income	12.00%	1.25%
Risk Mitigation Strategies	10.00%	1.75%
Liquidity	2.00%	-0.35%
Total	100.00%	

(a) Real return is net of assumed 2.75% inflation.
(b) 20-year geometric 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	$ 36,311,760
Current	7.10%
Net Pension Liability	$ 24,385,320
1% Increase	8.10%
Net Pension Liability	$ 1,536,030

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

10. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

Plan Description - GASB Statement 75, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions,* requires governments to account for other post-employment benefits (OPEB) on an accrual basis, rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially determined expense on the Statement of Activities when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. The post-employment benefit liability is recognized on the Statement of Net Position over time.

Benefits - The District pays subsidy to CalPERS on behalf of its eligible retirees. The benefit is a lifetime payment beginning at the date of retirement. The annual subsidy paid by the school district is $1,668 per retiree, indexed annually for medical CPI inflation. There are two retirees with special retirement provisions that have benefits that are slightly different. Covered spouses continue to receive the benefits after the death of the retiree.

Eligibility is determined by employee classification as follows:

Group	Required Age and Service	Benefit Duration
Certificated Management	55/5; 50/30	Lifetime
Certificated Contract / Substitute	55/5; 50/30	Lifetime
Classified Contract / Substitute:		
Hired Before 01/01/2013	50/5	Lifetime
Hired on or After 01/01/2013	52/5	Lifetime
Classified Management:		
Hired Before 01/01/2013	50/5	Lifetime
Hired on or After 01/01/2013	52/5	Lifetime
Confidential:		
Hired Before 01/01/2013	50/5	Lifetime
Hired on or After 01/01/2013	52/5	Lifetime

Employees Covered by Benefit Terms - At July 1, 2019 (the valuation date), the benefit terms covered the following employees:

Active employees	178
Inactive employees	60
Total employees	238

Contributions – The District makes contributions based on an actuarially determined rate and are approved by the authority of the District's Board. Total contributions made as benefit payments in the OPEB plan during the year were $113,332. The actuarially determined contribution for the measurement period was $781,104. The District's benefit payments were 0.65% of covered payroll during the measurement period June 30, 2021. 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:	July 1, 2019
Measurement Date:	June 30, 2021
Actuarial Cost Method:	Entry-Age Normal Cost Method
Amortization Period:	30 Years
Actuarial Assumptions:	
Discount Rate	2.21%
Inflation	2.81%
Payroll Increases	2.00%
Municipal Bond Rate	2.21%
Healthcare Trend	2.80%
Mortality	2017 CalSTRS Mortality Table 2019 CalPERS Active Mortality for Miscellaneous employees
Retirement	2017 CalSTRS Retirement Table Hired before 1/1/2013: 2017 CalPERS Retirement Rates for School Employees 2%@55 Hired after 1/1/2013: 2017 CalPERS Retirement Rate for Employees 2%@60 adjusted to minimum retirement age of 52
Service Requirement	Certificated: 2019 CalSTRS Withdrawal Classified: Terminated Refund Rates (School), and Terminated Vested Rates (School)

Discount Rate - The discount rate was based on the index provided by Bond Buyer 20-Bond General Obligation Index based on the 20-year AA municipal bond rate as of June 30, 2021.

Changes in the Total OPEB Liability - The following summarizes the changes in the total OPEB liability during the year ended June 30, 2021, for the measurement date of June 30, 2021.

Fiscal Year Ended June 30, 2021	Total OPEB Liability	Plan Fiduciary Net Position	Total OPEB Liability
Balance at June 30,2020	$ 9,160,507	$ -	$ 9,160,507
Service cost	360,183	-	360,183
Interest in Total OPEB Liability	201,195	-	201,195
Benefit payments	(113,332)	-	(113,332)
Net changes	448,046	-	448,046
Balance at June 30, 2021	$ 9,608,553	$ -	$ 9,608,553

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, 2021, 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	$ 665,343	$ -
Change in assumptions	2,223,886	-
Totals	$ 2,889,229	$ -

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,	
2022	$ 529,555
2023	529,555
2024	529,555
2025	529,553
2026	529,555
Thereafter	241,456
Total	$ 2,889,229

OPEB Expense - The following summarizes the OPEB expense by source during the year ended June 30, 2021, for the measurement date of June 30, 2021:

Service cost	$ 360,183
Interest in TOL	201,195
Difference between actual and expected experience	123,670
Change in assumptions	405,885
OPEB Expense	**$ 1,090,933**

The following summarizes changes in the net OPEB liability as reconciled to OPEB expense during the year ended June 30, 2021, for the measurement date of June 30, 2021:

Total OPEB liability ending	$ 9,608,553
Total OPEB liability begining	(9,160,507)
Change in total OPEB liability	448,046
Changes in deferred outflows	529,555
Employer contributions/benefit payments	113,332
OPEB Expense	**$ 1,090,933**

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	$ 13,124,514	$ 9,608,553	$ 7,250,547

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)	**2.80%**	**(1% Increase)**
Total OPEB Liability	$ 7,052,893	$ 9,608,553	$ 13,467,709

11. DEFINED CONTRIBUTION PENSION PLAN

Plan Description - The District makes a cash payment to reimburse its retirees for the cost of medical insurance acquired through CalPERS. The District has set maximum payment for each employee classification. The amount paid to the retiree is the net amount after paying the CalPERS minimum contribution for participating retirees.

Certain information contained in this note is based on information for the Defined Contribution Plan measured as of July 1, 2019, which is the most recent valuation date for which complete information related to the year ended June 30, 2021 is available.

Fiduciary Investment and Control - The plan is unfunded. Benefits are paid to retirees monthly.

Participants Covered by the Benefit Terms - The following participants were covered by the benefit terms:

Active employees	178
Inactive employees	21
Total employees	199

Contributions - Benefits are paid monthly to the retirees. There is no pre-funding of the pension obligation.

Trust Assets - None

Measurement of Total Pension Liability - The total pension liability at the June 30, 2021 measurement date was determined using an actuarial valuation as of July 1, 2019.

Actuarial Assumptions - The total pension liability in the July 1, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date:	July 1, 2019
Measurement Date:	June 30, 2021
Actuarial Cost Method:	Entry-Age Normal, as a percent of salary
Actuarial Assumptions:	
Discount Rate	3.50%
Inflation	2.81%
Payroll Increases	2.00%
Healthcare Trend	2.21%
Mortality	Varies based on coded field: RET_SYS
Certificated	2019 CalSTRS Mortality, table B.2
Classified	2017 CalPERS Active Mortality Miscellaneous employees

Changes in the Total Pension Liability - The following table presents the changes to the total pension liability from the defined contribution plan during the fiscal year.

Fiscal Year Ended June 30, 2021	**Total Pension Liability**
Balance at June 30, 2020	$ 803,744
Service cost	17,922
Interest	16,746
Benefit payments	(90,032)
Net changes	(55,364)
Balance at June 30, 2021	$ 748,380

Pension Expense - The following summarizes the components of pension expense related to the defined contribution plan:

Service cost	$ 17,922
Interest	16,746
Change in assumptions	13,785
Net Pension Expense	**$ 48,453**

Deferred Outflows of Resources and Deferred Inflows of Resources – The following summarizes the components of deferred outflows and inflows of resources related to the defined contribution plan during the year:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	$ 56,382	$ -

Amounts reported as deferred outflows of resources and deferred (inflows) of resources related to Pension will be recognized in Pension expense as follows:

Year Ended June 30,	
2022	$ 13,785
2023	13,785
2024	13,785
2025	13,785
Thereafter	1,242
Total	$ 56,382

Sensitivity of the Total Pension Liability to Changes in the Discount Rate - The following presents the total pension liability of the district as of the June 30, 2020 measurement date, calculated using the discount rate of 3.50% percent, as well as what the district's total pension liability would be if it were not calculated using a discount rate that is one percentage point lower (2.50%) or one percentage point higher (4.50%) than the current rate:

	Discount Rate		
	(1% Decrease)	3.50%	(1% Increase)
Net Pension Liability	$ 803,649	$ 748,380	$ 748,402

Sensitivity of the Total Pension Liability to Changes in medical inflation rate - The following presents the total pension liability of the district as of the June 30, 2020 measurement date, calculated using the medical inflation rate of 2.81% percent, as well as what the district's total pension liability would be if it were not calculated using a medical inflation rate that is one percentage point lower (1.81%) or one percentage point higher (3.81%) than the current rate:

	Trend Rate		
	(1% Decrease)	2.21%	(1% Increase)
Net Pension Liability	$ 706,030	$ 748,380	$ 795,920

12. 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.

Tax and Revenue Anticipation Notes

The District issued $761,130 of Tax and Revenue Anticipation Notes dated July 28, 2020. The notes matured on June 30, 2021 and had a two percent interest rate. The notes were sold to supplement cash flow. Repayment requirements were that fifty percentage of principal be deposited with the Fiscal Agent by January 1, 2021 and remaining principal and interest be deposited by April 1, 2021.

13. 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.

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

	SMCSIG June 30, 2020
Total Assets and Deferred Outflows	$ 30,522,324
Total Liabilities and Deferred Inflows	10,414,354
Total Net Position	20,107,970
Total Revenues	47,186,957
Total Expenditures	42,682,077

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, 2021

	Budgeted Amounts			Variance with
	Original	Final	Actual (GAAP Basis)	Final Budget Positive - (Negative)
Revenues:				
LCFF/Propert Taxes	$ 23,512,583	$ 23,596,765	$ 23,596,765	$ -
Federal	263,409	766,764	766,764	-
Other state	1,668,099	2,456,311	2,400,410	(55,901)
Other local	6,478,361	6,141,008	6,116,697	(24,311)
Total revenues	31,922,452	32,960,848	32,880,636	(80,212)
Expenditures:				
Certificated salaries	16,119,647	16,229,532	16,221,359	8,173
Classified salaries	4,473,791	4,196,380	4,193,123	3,257
Employee benefits	7,523,917	7,819,415	7,815,908	3,507
Books and supplies	901,536	1,177,351	1,082,516	94,835
Services and other operating expenditures	3,171,860	3,043,978	3,042,546	1,432
Capital outlay	400,315	403,052	403,052	-
Other outgo	248,579	221,388	221,387	1
Total expenditures	32,839,645	33,091,096	32,979,891	111,205
Excess (deficiency) of revenues over (under) expenditures	(917,193)	(130,248)	(99,255)	30,993
Other financing sources (uses):				
Transfers in	80,000	80,000	80,000	-
Transfers out	(3,500)	-	-	-
Total other financing sources (uses)	76,500	80,000	80,000	-
Changes in fund balance	$ (840,693)	$ (50,248)	(19,255)	$ 30,993
Prior period adjustments - GASB 84			43,516	
Fund balance beginning			8,331,594	
Fund balance ending			$ 8,355,855	

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. Expenditures over budget were covered by fund balance. The basis of budgeting is the same as GAAP.

Hillsborough City School District
Schedule of CalPERS Pension Plan Contributions
For the Year Ended June 30, 2021

CalPERS	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Contractually Required Contributions	$ 332,046	$ 350,898	$ 444,062	$ 503,369	$ 635,069	$ 812,476	$ 853,849
Contributions in Relation to Contractually Required Contributions	332,046	350,898	444,062	503,369	635,069	812,476	853,849
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered Payroll	**$ 2,820,882**	**$ 2,961,914**	**$ 3,197,451**	**$ 3,241,060**	**$ 3,516,050**	**$ 4,119,852**	**$ 4,125,617**
Contributions as a % of Covered Payroll	**11.77%**	**11.85%**	**13.89%**	**15.53%**	**18.06%**	**19.72%**	**20.70%**

Notes to Schedule:

Valuation Date: June 30, 2019

Assumptions Used: Entry Age Method used for Actuarial Cost Method
Level Percentage of Payroll and Direct Rate Smoothing
4.1 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 six years are shown.
The CalPERS discount rate was increased from 7.5% to 7.65% in fiscal year 2016 and then decreased from 7.65% to 7.15% in fiscal year 2018.
The CalPERS inflation assumption was decreased from 2.75% to 2.50% during the District's fiscal year 2019.
In 2019, the amortization period for actuarial gains and losses was shortened from 30 years to 20 years.
The CalPERS mortality assumptions was adjusted in fiscal year 2019.

Hillsborough City School District
Schedule of CalPERS Proportionate Share of Net Pension Liabilities
For the Year Ended June 30, 2021

CalPERS	2015	2016	2017	2018	2019	2020	2021
District's Proportion of Net Pension Liability	0.02570%	0.02533%	0.02541%	0.02507%	0.02447%	0.02535%	0.02848%
District's Proportionate Share of Net Pension Liability	$ 2,917,576	$ 3,733,599	$ 5,018,892	$ 5,984,871	$ 6,524,472	$ 7,387,193	$ 8,739,461
Covered Payroll	$ 2,697,745	$ 2,820,882	$ 2,961,914	$ 3,197,451	$ 3,241,060	$ 3,516,050	$ 4,119,852
Proportionate Share of NPL as a % of Covered Payroll	**108.15%**	**132.36%**	**169.45%**	**187.18%**	**201.31%**	**210.10%**	**212.13%**
Plan's Fiduciary Net Position as a % of the TPL	**83.38%**	**79.43%**	**73.90%**	**71.87%**	**70.85%**	**70.05%**	**70.00%**

Fiscal year 2015 was the first year of implementation, therefore only six 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.
In 2019, the amortization period for actuarial gains and losses was shortened from 30 years to 20 years.
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 Year Ended June 30, 2021

CalSTRS	2015	2016	2017	2018	2019	2020	2021
Contractually Required Contributions	$ 1,157,499	$ 1,465,703	$ 1,769,285	$ 2,003,090	$ 2,350,055	$ 2,504,484	$ 2,564,887
Contributions in Relation to Contractually Required Contributions	1,157,499	1,465,703	1,769,285	2,003,090	2,350,055	2,504,484	2,564,887
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered Payroll	**$ 13,034,899**	**$ 13,659,860**	**$ 14,064,269**	**$ 13,881,428**	**$ 14,435,227**	**$ 14,646,105**	**$ 15,878,198**
Contributions as a % of Covered Payroll	**8.88%**	**10.73%**	**12.58%**	**14.43%**	**16.28%**	**17.10%**	**16.15%**

Notes to Schedule:

Valuation Date: June 30, 2019

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%
Mortality tables are based on 110% of the MP-2019 Ultimate Projection Scale table issued by the Society of Actuaries.

Fiscal year 2015 was the first year of implementation, therefore only six 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 Year Ended June 30, 2021

CalSTRS	2015	2016	2017	2018	2019	2020	2021
District's Proportion of Net Pension Liability	0.02687%	0.02642%	0.02652%	0.02700%	0.02600%	0.02700%	0.02700%
District's Proportionate Share of Net Pension Liability	$ 15,702,742	$ 17,786,323	$ 21,446,713	$ 24,969,330	$ 23,895,820	$ 24,385,320	$ 26,165,430
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	13,303,899	13,488,279
Total	$ 25,184,686	$ 27,193,331	$ 33,655,898	$ 39,740,936	$ 37,577,372	$ 37,689,219	$ 39,653,709
Covered Payroll	$ 11,968,521	$ 13,034,899	$ 13,659,860	$ 14,064,269	$ 13,881,428	$ 14,435,227	$ 14,646,105
District's Proportionate Share of NPL as a % of Covered Payroll	**131.20%**	**136.45%**	**157.01%**	**177.54%**	**172.14%**	**168.93%**	**178.65%**
Plan's Fiduciary Net Position as a % of the TPL	**76.52%**	**74.02%**	**70.04%**	**69.46%**	**70.99%**	**72.56%**	**71.82%**

Fiscal year 2015 was the first year of implementation, therefore only six 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 Year Ended June 30, 2021

Fiscal Year Ended	2018	2019	2020	2021
Total OPEB liability				
Service cost	$ 249,449	$ 256,310	$ 352,396	$ 360,183
Interest	163,669	159,579	191,649	201,195
Differences between expected and actual experience	-	-	912,683	-
Changes of assumptions	-	185,526	2,867,469	-
Benefit payments	(164,367)	(170,942)	(110,882)	(113,332)
Net change in Total OPEB Liability	248,751	430,473	4,213,315	448,046
Total OPEB Liability - beginning	4,267,968	4,516,719	4,947,192	9,160,507
Total OPEB Liability - ending	$ 4,516,719	$ 4,947,192	$ 9,160,507	$ 9,608,553
Plan fiduciary net position				
Net change in plan fiduciary net position	-	-	-	-
Plan fiduciary net position - beginning	-	-	-	-
Plan fiduciary net position - ending	$ -	$ -	$ -	$ -
Net OPEB liability (asset)	$ 4,516,719	4,947,192	9,160,507	9,608,553
Plan fiduciary net position as a percentage of the total OPEB liability	0.00%	0.00%	0.00%	0.00%
Covered Employee Payroll	$ 17,131,760	$ 17,171,163	$ 17,210,925	$ 17,555,144
Net OPEB liability as a percentage of covered employee payroll	26.36%	28.81%	53.22%	54.73%
Total OPEB liability as a percentage of covered employee payroll	26.36%	28.81%	53.22%	54.73%

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.

Mortality, withdrawal and retirement tables were updated to reflect more recent CalPERS and CalSTRS tables.

Trend rates were decreased from 4% in 2019 to 2.8% in 2020.

The discount rate was reduced from 3.5% in 2019 to 2.21% in 2020.

Hillsborough City School District
Defined Contribution Plan Schedule of Changes in Total Pension Liability
For the Year Ended June 30, 2021

Fiscal Year Ended	2020	2021
Pension Liability		
Service cost	$ 15,046	$ 17,922
Interest	25,637	16,746
Changes of assumptions	83,952	-
Benefit payments	(106,756)	(90,032)
Net change in Pension Liability	17,879	(55,364)
Pension Liability - Beginning	785,865	803,744
Pension Liability - Ending	$ 803,744	$ 748,380
Annual Covered Payroll	$ 18,910,925	$ 19,289,144
Pension Liability as % of Covered Payroll	4.25%	3.88%

SUPPLEMENTARY INFORMATION

Nonmajor Governmental Funds
Combining Schedules

Hillsborough City School District
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2021

	Special Revenue Funds	Capital Projects Funds	
	Cafeteria Fund	Capital Facilities Fund	Totals
Assets			
Cash and investments	$ 8,068	$ 121,720	$ 129,788
Accounts receivable	20	9,150	9,170
Total Assets	$ 8,088	$ 130,870	$ 138,958
Liabilities and Fund Balances			
Fund balances:			
Restricted for:			
Capital projects	$ -	$ 130,870	$ 130,870
Cafeteria programs	8,088	-	8,088
Total Fund Balances	8,088	130,870	138,958
Total Liabilities and Fund Balances	$ 8,088	$ 130,870	$ 138,958

Hillsborough City School District
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances
Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2021

	Special Revenue Fund	Capital Projects Funds	
	Cafeteria Fund	Capital Facilities Fund	Totals
Revenues:			
Other local	$ 112	$ 141,666	$ 141,778
Total revenues	112	141,666	141,778
Expenditures:			
Pupil services:			
Food services	3,197	-	3,197
Facilities acquisition and construction	-	13,381	13,381
Total expenditures	3,197	13,381	16,578
Excess (deficiency) of revenues over (under) expenditures	(3,085)	128,285	125,200
Other financing sources (uses):			
Transfers in	-	-	-
Transfers out	-	-	-
Total other financing sources (uses)	-	-	-
Changes in fund balances	(3,085)	128,285	125,200
Fund balances beginning	11,173	2,585	13,758
Fund balances ending	$ 8,088	$ 130,870	$ 138,958

COMPLIANCE SECTION

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

Name	Office	Term Expires
Don Geddis	President	2022
An Chen	Vice President	2022
Greg Dannis	Clerk	2024
Gilbert Wai	Member	2022
Kim Oliff	Member	2024

Administration

Louann Carlomagno
Superintendent

Joyce Shen
Chief Business Official

Hillsborough City School District
Schedule of Instructional Time
For the Fiscal Year Ended June 30, 2021

Grade Level	Minutes Requirements	2021 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Kindergarten	n/a	n/a	181	0	In compliance
Grade 1	n/a	n/a	181	0	In compliance
Grade 2	n/a	n/a	181	0	In compliance
Grade 3	n/a	n/a	181	0	In compliance
Grade 4	n/a	n/a	181	0	In compliance
Grade 5	n/a	n/a	181	0	In compliance
Grade 6	n/a	n/a	181	0	In compliance
Grade 7	n/a	n/a	181	0	In compliance
Grade 8	n/a	n/a	181	0	In compliance

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. However, for fiscal year 2021, districts are only required to offer a minimum number of days based on Education Code Section 46200, chapter 2, part 26. This schedule reports the District's compliance with this Ed. Code Section.

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, 2021

	(Budget) [1] 2022	2021	2020	2019
General Fund				
Revenues and other financial sources	$ 34,142,950	$ 32,960,636	$ 31,842,615	$ 31,588,610
Expenditures	34,786,490	32,979,891	31,636,763	30,476,617
Other uses and transfers (out)	15,000	-	15,000	-
Total outgo	34,801,490	32,979,891	31,651,763	30,476,617
Change in fund balance	(658,540)	(19,255)	190,852	1,111,993
Adjustment for GASB	-	43,516	-	-
Ending fund balance	$ 7,697,315	$ 8,355,855	$ 8,331,594	$ 8,140,742
Available reserves [2]	$ 5,576,818	$ 6,086,932	$ 6,400,848	$ 5,594,420
Designated for economic uncertainty	$ 2,680,051	$ 2,563,555	$ 2,480,775	$ 1,830,697
Unassigned fund balance	$ 2,896,767	$ 3,523,377	$ 3,920,073	$ 3,763,723
Available reserves as a percentage of total outgo	16%	18%	20%	18%
Total long-term debt	$ 128,439,546	$ 131,483,639	$ 129,586,693	$ 119,490,322
Average daily attendance at P-2	1,244	1,244	1,244	1,307

ADA has decreased by 63 over the past three years. The district anticipates ADA to remain level for 2021.

The general fund balance has increased by $215,113 over the past three years and operated at a surplus in two 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 $11,993,317 over the past three years.

[1] Budget numbers are based on the first adopted budget of the fiscal year 2021/22

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

Hillsborough City School District
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2021

Program Name	Federal Catalog Number		Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF EDUCATION				
Passed Through California Department of Education				
Special Education Cluster				
IDEA Basic Local Assistance	84.027		13379	$ 239,111
Special Ed: IDEA Preschool Staff Development, Part B, Sec 619	84.173		13431	70
IDEA Local Assistance, Part B, Sec 611, Private School ISPs	84.027		10115	1,366
IDEA Preschool Grants	84.173		13430	7,390
Total Special Education Cluster				247,937
Title I, Part A, Basic Grants Low-Income & Neglected	84.010		14329	33,023
Title II: Improving Teacher Quality	84.367		14341	22,196
ESEA (ESSA) : Title III, English Learner Student Program	84.365		14346	1,830
Governor's Emergency Education Relief (GEER) Fund: Learning LossMitigation	84.425C		15517	80,042
ESSER Cluster				
Elementary and Secondary School Emergency Relief II (ESSER II) Fund	84.425D		15547	1,743
Elementary and Secondary School Emergency Relief III (ESSER III) Fund	84.425D		15559	17,338
Total ESSER Cluster				19,081
TOTAL U.S. DEPARTMENT OF EDUCATION				404,109
U.S. DEPARTMENT OF TREASURY				
Passed Through California Department of Education				
Coronavirus Relief Fund (CRF): Learning Loss Mitigation	21.019	(1)	25516	353,948
TOTAL U.S. DEPARTMENT OF TREASURY				353,948
TOTAL FEDERAL PROGRAMS				$ 758,057

(1) Audited as major program

There were no passthroughs to subrecipients

Hillsborough City School District
Reconciliation of Annual Financial and Budget Report (SACS)
to the Audited Financial Statements
For the Fiscal Year Ended June 30, 2021

	General Fund	Building Fund	Special Reserve for Capital Outlay Fund	Bond Interest & Redemption Fund	Other Nonmajor Governmental Funds
June 30, 2021 Annual Financial and Budget Report Fund Balances	$ 6,380,611	$ 524,760	$ 168,817	$ 3,713,930	$ 2,114,202
Adjustments and Reclassifications:					
GASB 54 reclassifications	$ 1,975,244	-	-	-	(1,975,244)
June 30, 2021 Audited Financial Statements Fund Balances	$ 8,355,855	$ 524,760	$ 168,817	$ 3,713,930	$ 138,958

1. PURPOSE OF SCHEDULES

A. Schedule of Instructional Time

This schedule presents information on the amount of instructional time/days offered by the District and whether the District complied with the provisions of Education Code Sections 46200 through 46206.

B. 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.

C. 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.

D. Schedule of Expenditures of Federal Awards

Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Regulations, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) requires a disclosure of the financial activities of all federally funded programs. This schedule was prepared to comply with Uniform Guidance requirements. The District has elected not to use the 10 percent de minimis indirect cost rate as allowed under Uniform Guidance.

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.

2. RESULTS OF RECONCILIATIONS OF EXPENDITURES PER SCHEDULE OF GRANT ACTIVITY WITH THE DISTRICT'S ACCOUNTING SYSTEM

There were no material unreconciled differences between the District's records and the Schedule of Federal Grant Activity as shown on the Schedule of Expenditures of Federal Awards.

3. BASIS OF PRESENTATION – SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Regulations, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

OTHER INDEPENDENT AUDITOR'S REPORTS

Chavan and Associates, llp
Certified Public Accountants

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, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 20, 2021.

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,

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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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

C & A LLP

November 20, 2021
San Jose, California

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Chavan and Associates, llp
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

We have audited Hillsborough City School District's (the District) compliance with the types of compliance requirements described in *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2021. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. 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 audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Regulations, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

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Chavan and Associates, llp
Certified Public Accountants

Report on Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of The District's internal control over compliance.

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

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

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

C & A LLP

November 20, 2021
Morgan Hill, California

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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 *2020-21 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, 2021.

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, *2020-21 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 *2020-21 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:

Description	Procedures Performed
Local Education Agencies Other than Charter Schools:	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	N/A
Continuation Education	N/A
Instructional Time	Yes

Description	Procedures Performed
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	N/A
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

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, 2021.

C & A LLP

November 20, 2021
San Jose, California

FINDINGS AND RECOMMENDATIONS

Hillsborough City School District
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2021

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

Internal control over major programs:	
Material weaknesses?	____ Yes x No
Significant deficiencies identified not considered to be material weaknesses?	____ Yes x No
Type of auditor's report issued on compliance over major programs	**Unmodified**
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)	____ Yes x No

Identification of Major Programs:

CFDA Num	Name of Federal Program
21.019	Coronavirus Relief Fund (CRF): Learning Loss Mitigation

Dollar threshold used to distinguish between type A and type B programs:	$ 750,000
Auditee qualified as low risk auditee?	____ Yes x No

State Awards

Internal control over state programs:	
Material weaknesses?	____ Yes x No
Significant deficiencies identified not considered to be material weaknesses?	____ Yes x 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

None

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

Section IV - State Award Findings and Questioned Costs

None