

**HILLSBOROUGH CITY SCHOOL DISTRICT
COUNTY OF SAN MATEO
HILLSBOROUGH, CALIFORNIA**

AUDIT REPORT

JUNE 30, 2018



CHAVAN & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS
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Hillsborough City School District
County of San Mateo

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Hillsborough City School District
County of San Mateo

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FINANCIAL
SECTION



INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hillsborough City School District (the District), as of and for the year ended June 30, 2018, 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

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

Auditor's Responsibility

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

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

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



Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2018 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, 2018, 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

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the District adopted new accounting guidance, GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB). The District currently funds this obligation on a pay-as-you go basis. The District anticipates that its ongoing funding and current resources are sufficient to meet its obligations as they come due. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of CalPERS pension contributions, schedule of CalPERS proportionate share of net pension liability, schedule of STRS pension contributions, schedule of STRS proportionate share of net pension liability, schedule of contributions for other postemployment benefits, 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, organization schedule, schedule of average daily attendance, schedule of instructional time offered, schedule of charter schools, and the reconciliation of the Annual Financial Budget report (SACS) to the audited financial statements, as required by the *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, schedule of average daily attendance, schedule of instructional time offered, and the reconciliation of the Annual Financial 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 offered, schedule of financial trends and analysis (except for the budget information), and the reconciliation of the Annual Financial 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 19, 2018 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 19, 2018
San Jose, California

Management's Discussion and Analysis

Hillsborough City School District

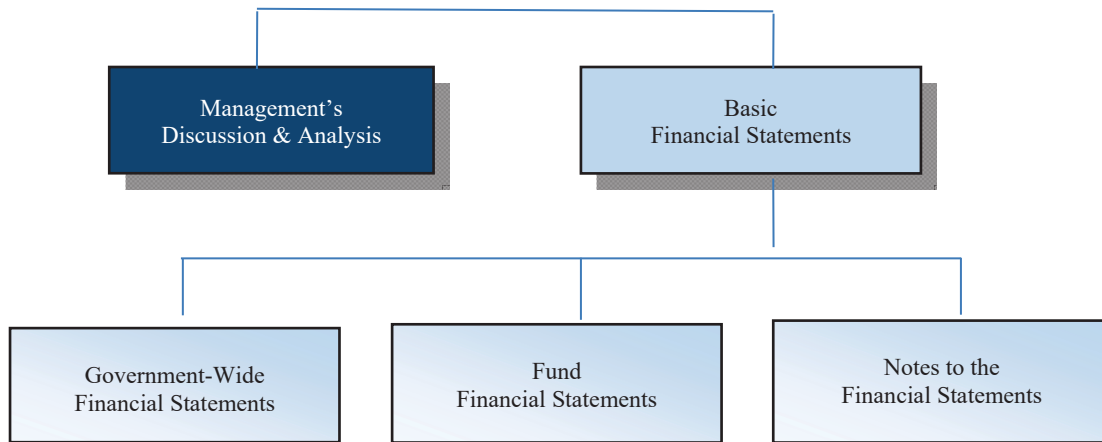
Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2018

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, 2018. 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, 2018 were as follows:

- Total net position decreased by \$6,209,907, or 18.59%, which included an decrease in unrestricted net position of \$6,189,355, from June 30, 2017 to June 30, 2018, mainly due to an increase in net pension obligations of \$4,488,595, the net OPEB obligation of \$2,451,584, and increases to accreted interest of \$2,787,800.
- The District recorded deferred outflows of resources of \$18,549,495 and deferred inflows of resources of \$1,125,140 as required by GASB 68 for pension 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 \$35,972,710 in government-wide expenses which is 113% of total government-wide revenues. Program specific revenues in the form of operating grants and contributions and charges for services accounted for \$1,930,773, or 6.04%, of the total revenues of \$31,965,636.
- General revenue of \$30,034,863 which includes property taxes, unrestricted federal and state grants and LCFF sources, was 93.96% of total revenues in 2018 versus 94.27% in 2017.

Hillsborough City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018

- The fund balances of all governmental funds increased by \$1,268,599, which is a 14.3% increase from 2017.
- Total governmental fund revenues and expenditures totaled \$31,965,636 and \$35,972,710, respectively.

USING THE ANNUAL REPORT

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

The Statement of Net Position and Statement of Activities comprise the government-wide financial statements and provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other non-major funds presented in total in one column. In the case of the District, the General Fund is by far the most significant fund. The basic financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

Hillsborough City School District

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2018

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 2017 - 2018?" 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, Special Reserve Fund for Capital Outlay and the Bond Interest and Redemption Fund.

Governmental Funds

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

Hillsborough City School District

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018

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, 2018 as compared to June 30, 2017:

Table 1 - Summary of Statement of Net Position				
Description	2018	2017	Change	Percentage Change
Assets				
Current Assets	\$ 10,839,732	\$ 9,473,139	\$ 1,366,593	14.43%
Capital Assets	49,910,667	52,238,236	(2,327,569)	-4.46%
Total Assets	\$ 60,750,399	\$ 61,711,375	\$ (960,976)	-1.56%
Total Deferred Outflows of Resources	\$ 18,549,495	\$ 18,369,572	\$ 179,923	0.97%
Liabilities				
Current Liabilities	\$ 993,073	\$ 903,079	\$ 89,994	9.97%
Long-term Liabilities	116,795,032	109,178,073	7,616,959	6.98%
Total Liabilities	\$ 117,788,105	\$ 110,081,152	\$ 7,706,953	7.00%
Total Deferred Inflows of Resources	\$ 1,125,140	\$ 3,403,239	\$ (2,278,099)	-202.47%
Net Position				
Net Investment in Capital Assets	\$ (19,894,963)	\$ (19,714,667)	\$ (180,296)	-0.91%
Restricted	3,140,910	2,981,166	159,744	5.36%
Unrestricted	(22,859,298)	(16,669,943)	(6,189,355)	-37.13%
Total Net Position	\$ (39,613,351)	\$ (33,403,444)	\$ (6,209,907)	-18.59%

During the year, deferred outflows of resources increased by .97%, deferred inflows of resources decreased by 202.47%, and long-term liabilities increased by 6.98% because of changes in benefit obligations and actuarial assumptions related to GASB 68 and GASB 75.

Hillsborough City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018

Table 2 shows the changes in net position for fiscal year 2018 as compared to 2017:

Table 2 - Summary of Changes in Statement of Activities					
Description	2018	2017	Change	Percentage Change	
Revenues					
Program revenues	\$ 1,930,773	\$ 1,746,925	\$ 183,848	10.52%	
General revenues:					
Property taxes	24,815,236	23,511,037	1,304,199	5.55%	
Grants and entitlements - unrestricted	942,911	1,039,483	(96,572)	-9.29%	
Other	4,276,716	4,166,569	110,147	2.64%	
Total Revenues	31,965,636	30,464,014	1,501,622	4.93%	
Program Expenses					
Instruction	22,598,223	21,589,678	1,008,545	4.67%	
Instruction-related services	3,261,730	3,163,906	97,824	3.09%	
Pupil services	1,117,009	1,022,746	94,263	9.22%	
General administration	2,082,347	1,888,616	193,731	10.26%	
Plant services	2,844,745	2,339,819	504,926	21.58%	
Facility acquisition and construction	55,711	-	55,711	100%	
Community services	281,105	234,511	46,594	19.87%	
Other outgo	94,292	37,668	56,624	150.32%	
Interest on long-term debt	3,637,548	985,755	2,651,793	269.01%	
Total Expenses	35,972,710	31,262,699	4,710,011	15.07%	
Change in Net Position	(4,007,074)	(798,685)	(3,208,389)	-401.71%	
Beginning Net Position	(33,403,444)	(32,604,759)	(798,685)	-2.45%	
Prior Period Adjustments	(2,202,833)	-	(2,202,833)	100.00%	
Ending Net Position	\$ (39,613,351)	\$ (33,403,444)	\$ (6,209,907)	-18.59%	

The District's expenses for instructional services was 72% of total expenses in 2017-18 as compared to 79% in 2016-17. The purely administrative activities of the District accounted for 6% of total costs in 2017-18 as compared to 6% in 2016-17. Interest on long-term debt represented 10% of total expenses in 2017-18 as compared to 3% in 2016-17. Total expenses were 113% of revenue in 2017-18 versus 103% in 2016-17, which is reflected in the deficit change in net position of \$4,007,074 in 2017-18 versus a deficit change in net position of \$798,685 in 2016-17. In regard to revenue, program revenues were 6.04% of total revenues in 2017-18 and 5.73% of total revenues in 2016-17.

Hillsborough City School District

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018

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	2018	2017	Change	Percentage Change
Instruction	\$ 21,080,420	\$ 20,252,732	\$ 827,688	4.1%
Instruction-related services	3,093,396	2,998,109	95,287	3.2%
Pupil services	1,064,471	967,251	97,220	10.1%
General administration	2,061,667	1,876,112	185,555	9.9%
Plant services	2,747,662	2,237,914	509,748	22.8%
Facility acquisition and constructio	55,711	-	55,711	100.0%
Community services	270,666	224,330	46,336	20.7%
Other outgo	30,396	(26,429)	56,825	186.9%
Interest on long-term debt	3,637,548	985,755	2,651,793	269.0%
Total Net Cost of Services	\$ 34,041,937	\$ 29,515,774	\$ 4,526,163	15.33%

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

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

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

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

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

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

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

Hillsborough City School District

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2018

THE DISTRICT'S FUNDS

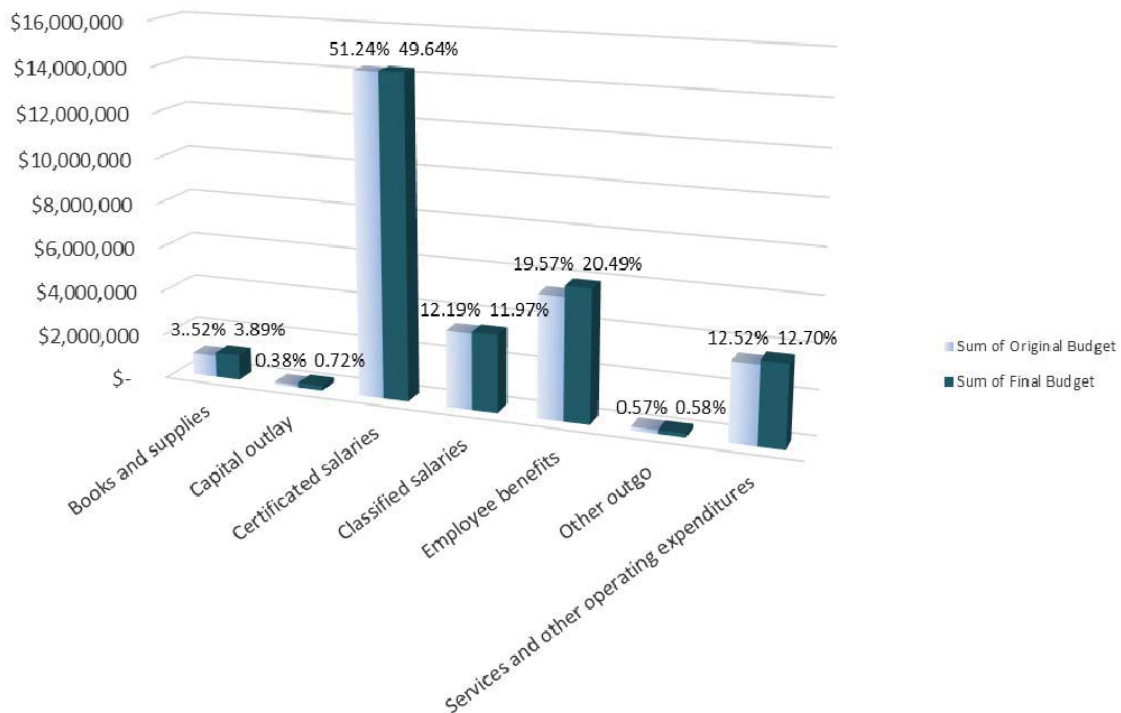
Table 4 provides an analysis of the District's fund balances and the total change in fund balances from the prior year.

Table 4 - Summary of Fund Balances				
Description	2018	2017	Change	Percentage Change
General Fund	\$ 7,028,749	\$ 6,024,514	\$ 1,004,235	16.7%
Special Reserve Fund for Capital Outlay Projects	108,548	127,378	(18,830)	-14.8%
Bond Interest and Redemption Fund	2,733,189	2,532,353	200,836	7.9%
Nonmajor Funds	245,173	162,815	82,358	50.6%
Total Fund Balances	\$ 10,115,659	\$ 8,847,060	\$ 1,268,599	14.3%

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 2017-18 fiscal year, the District revised its General Fund budget twice, at 1st Interim and 2nd interim. The overall increase in expenditures was due to increases in employee salaries, benefits and books and supplies. The General Fund budget basis revenue increased by \$1,043,627 from original to final budgets.

Chart 1: General Fund Budgeted Expenditures



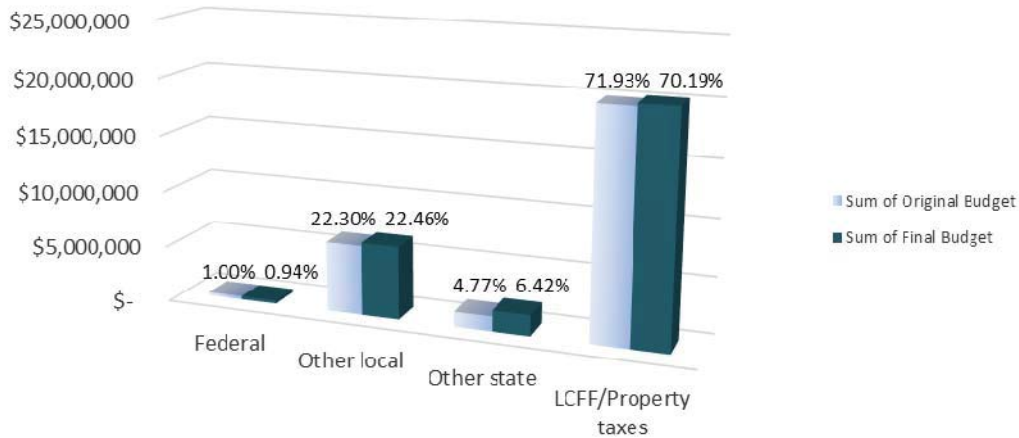
Hillsborough City School District

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2018

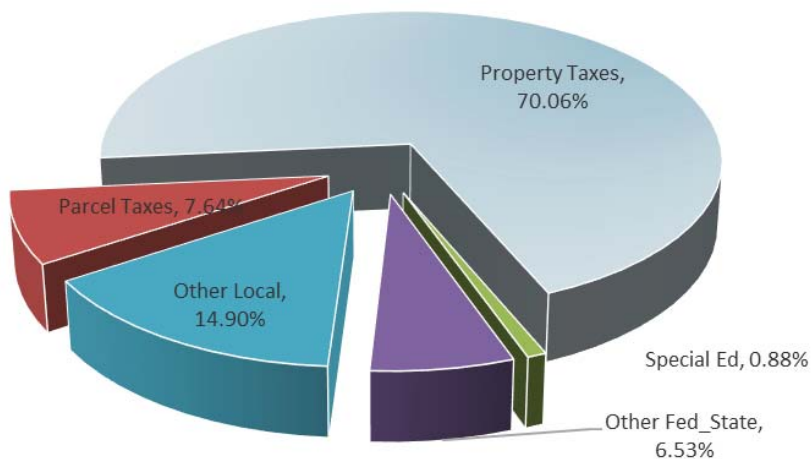
The following summarizes the District's budgeted revenue in the General Fund:

Chart 2: General Fund Budgeted Revenues



The District is community-funded basic aid, which means that the District relies on local property taxes rather than State aid for revenue. Total General Fund revenues for 2017-18 increased 4.28% from the prior year to \$28,933,811. Revenues increased \$181,086 from local property taxes and decreased \$18,199 from the parcel tax, and \$191,363 increase from other federal and state resources. Locally generated revenues amounted to 85% of the District's total revenues. It's important to note that the following pie charts only include fund 01, the general operating fund of the District, whereas the General Fund as included in the audited basic financial statements, required supplementary information, supplementary information and state compliance information presented elsewhere in this report, includes fund 01, fund 17 (Special Reserve fund for Other Than Capital Outlay Projects) and fund 20 (OPEB Fund) as required by GASB 54.

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

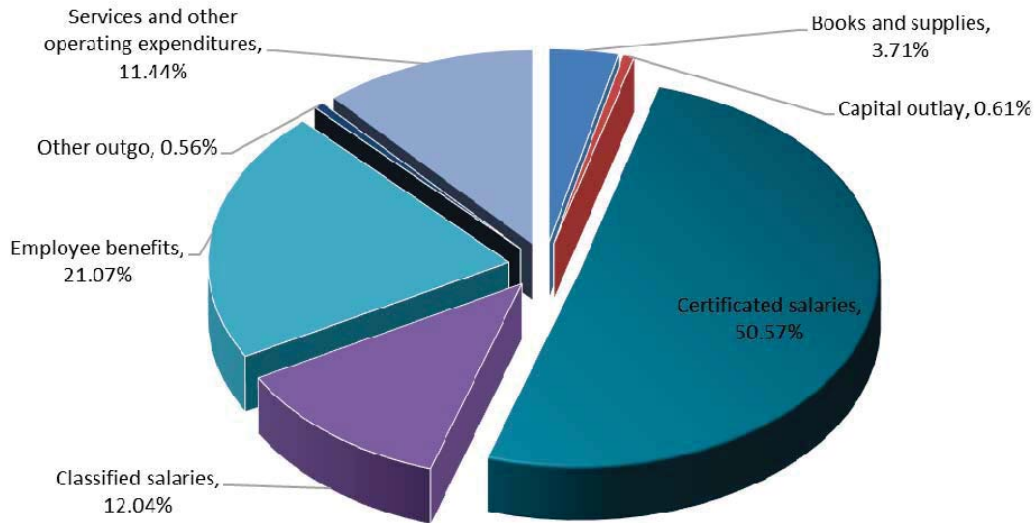


Hillsborough City School District

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2018

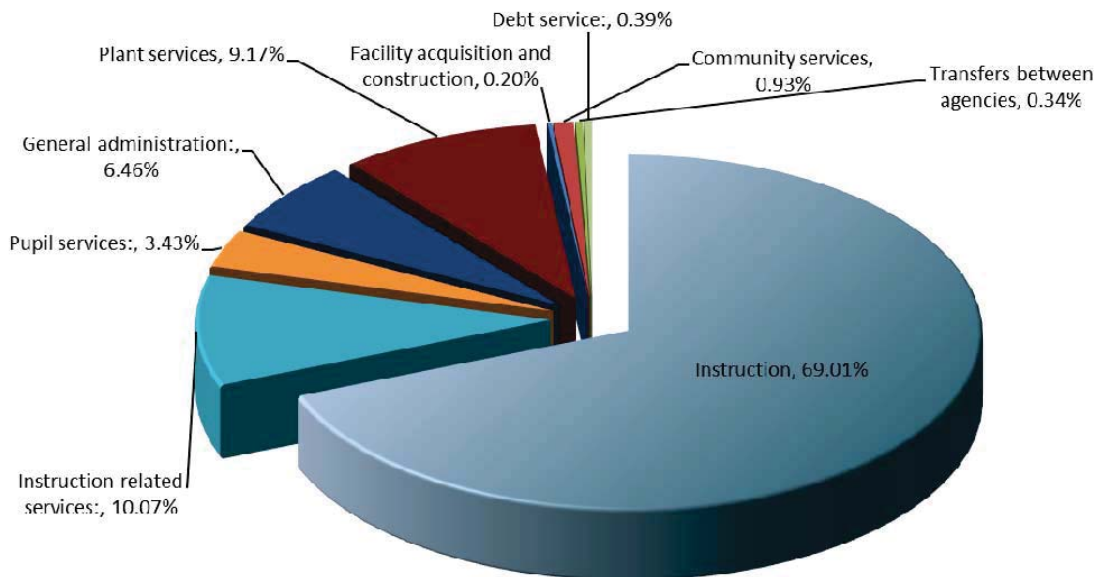
Expenditures increased 0.67% over the prior year. As is common with virtually all school districts, the majority of expenditures in the General Fund were for salaries and benefits. Of the \$28,032,698 expended during 2017-18, 83.68% was spent on salaries and benefits. See the charts below for a breakdown of general fund expenditures by Object.

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



As seen in the chart below, the District spent 79.08% of total general fund expenditures on instruction and instruction-related activities.

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



Hillsborough City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018

CAPITAL ASSETS

Table 5 shows June 30, 2018 balances as compared to June 30, 2017.

Table 5 - Summary of Capital Assets Net of Depreciation				
Description	2018	2017	Change	Percentage Change
Land	\$ 228,711	\$ 228,711	\$ -	0.00%
Buildings	431,464	498,144	(66,680)	-13.39%
Site Improvements	48,651,173	50,934,888	(2,283,715)	-4.48%
Equipment	599,319	576,493	22,826	3.96%
Total Capital Assets - Net	\$ 49,910,667	\$ 52,238,236	\$ (2,327,569)	-4.46%

LONG TERM DEBT

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

Table 6 - Summary of Long-term Liabilities				
Description	2018	2017	Change	Percentage Change
General Obligation Bonds	\$ 81,099,917	\$ 80,459,390	\$ 640,527	0.80%
Net Pension Obligations	30,954,200	26,465,605	4,488,595	16.96%
Net OPEB Obligation	4,516,719	2,065,135	2,451,584	118.71%
Compensated Absences	224,196	187,943	36,253	19.29%
Total Long-term Liabilities	\$ 116,795,032	\$ 109,178,073	\$ 7,616,959	6.98%

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

The District is ever aware of its reliance on local support. Of total revenues, 14.90% 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, 2018

	Governmental Activities
Assets	
Cash and investments	\$ 10,468,720
Receivables	290,116
Prepaid expenses	80,896
Capital assets - net	49,910,667
Total Assets	<u>\$ 60,750,399</u>
Deferred Outflows of Resources	
Pension adjustments	\$ 9,101,319
Deferred loss on early retirement of long-term debt	9,448,176
Total Deferred Outflows of Resources	<u>\$ 18,549,495</u>
Liabilities	
Accounts payable	\$ 665,740
Unearned revenue	58,333
Accrued interest	269,000
Long-term liabilities:	
Due within one year	2,095,635
Due after one year	114,699,397
Total Liabilities	<u>\$ 117,788,105</u>
Deferred Inflows of Resources	
Pension adjustments	\$ 1,125,140
Total Deferred Inflows of Resources	<u>\$ 1,125,140</u>
Net Position	
Net investment in capital assets	\$ (19,894,963)
Restricted for:	
Educational programs	162,548
Debt service	2,733,189
Capital projects	231,200
Cafeteria programs	13,973
Unrestricted	(22,859,298)
Total Net Position	<u>\$ (39,613,351)</u>

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

Hillsborough City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2018

		Program Revenues		Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Instruction	\$ 22,598,223	\$ 186,391	\$ 1,331,409	\$ (21,080,423)
Instruction-related services:				
Supervision of instruction	1,435,445	9,812	92,069	(1,333,564)
Instruction library, media and technology	153,504	-	5,151	(148,353)
School site administration	1,672,781	-	61,302	(1,611,479)
Pupil services:				
Home-to-school transportation	104,122	2,750	362	(101,010)
Food services	4,509	-	-	(4,509)
All other pupil services	1,008,378	212	49,217	(958,949)
General administration:				
Data processing	371,697	-	-	(371,697)
All other general administration	1,710,650	-	20,680	(1,689,970)
Plant services	2,844,745	109	96,974	(2,747,662)
Facility acquisition and construction	55,711	-	-	(55,711)
Community services	281,105	-	10,439	(270,666)
Other outgo	94,292	49,457	14,439	(30,396)
Interest on long-term debt	3,637,548	-	-	(3,637,548)
Total governmental activities	<u>\$ 35,972,710</u>	<u>\$ 248,731</u>	<u>\$ 1,682,042</u>	<u>(34,041,937)</u>
General revenues:				
Taxes and subventions:				
Taxes levied for general purposes				19,813,173
Taxes levied for debt service				2,790,592
Taxes levied for other specific purposes				2,211,471
Federal and state aid not restricted to specific purposes				942,911
Interest and investment earnings				131,519
Miscellaneous				4,145,197
Total general revenues				<u>30,034,863</u>
Change in net position				(4,007,074)
Net position beginning				(33,403,444)
Prior period adjustment - GASB 75 OPEB				(2,202,833)
Net position beginning, as adjusted				<u>(35,606,277)</u>
Net position ending				<u>\$ (39,613,351)</u>

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

Hillsborough City School District

Governmental Funds

Balance Sheet

June 30, 2018

	General Fund	Special Reserve for Capital Outlay Fund	Bond Interest & Redemption Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and investments	\$ 7,335,863	\$ 166,154	\$ 2,722,722	\$ 243,981	\$ 10,468,720
Accounts receivable	277,730	727	10,467	1,192	290,116
Prepaid expenses	80,896	-	-	-	80,896
Total Assets	\$ 7,694,489	\$ 166,881	\$ 2,733,189	\$ 245,173	\$ 10,839,732
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 665,740	\$ -	\$ -	\$ -	\$ 665,740
Unearned revenue	-	58,333	-	-	58,333
Total Liabilities	665,740	58,333	-	-	724,073
Fund balances:					
Nonspendable:					
Revolving fund	5,000	-	-	-	5,000
Prepaid expenditures	80,893	-	-	-	80,893
Restricted:					
Educational programs	162,548	-	-	-	162,548
Cafeteria programs	-	-	-	13,973	13,973
Debt service	-	-	2,733,189	-	2,733,189
Capital projects	-	-	-	231,200	231,200
Committed:					
Deferred maintenance	-	108,548	-	-	108,548
Educational programs	552,738	-	-	-	552,738
Other postemployment benefits	1,381,611	-	-	-	1,381,611
Unassigned:					
Reserve for economic uncertainties	1,684,062	-	-	-	1,684,062
Unappropriated	3,161,897	-	-	-	3,161,897
Total Fund Balances	7,028,749	108,548	2,733,189	245,173	10,115,659
Total Liabilities and Fund Balances	\$ 7,694,489	\$ 166,881	\$ 2,733,189	\$ 245,173	\$ 10,839,732

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, 2018

Total fund balances - governmental funds \$ 10,115,659

Capital assets for governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$81,592,007 and the accumulated depreciation is \$31,681,340. 49,910,667

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: (269,000)

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	(128,757)
Difference between actual and expected earnings	(457,974)
Change in assumptions	5,429,630
Differences in proportionate share of contributions	739,353
Changes in employer's proportionate shares	(112,531)
Contribution subsequent to measurement date	2,506,458

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	\$ 81,099,917	
Loss on early retirement of long-term debt	(9,448,176)	
Net pension obligations	30,954,200	
Net OPEB obligations	4,516,719	
Compensated absences	224,196	(107,346,856)

Total net position - governmental activities \$ (39,613,351)

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, 2018

	General Fund	Special Reserve for Capital Outlay Fund	Bond Interest & Redemption Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:					
LCFF/Propert Taxes	\$ 20,270,044	\$ -	\$ -	\$ -	\$ 20,270,044
Federal	269,788	-	-	-	269,788
Other state	1,872,298	-	5,172	-	1,877,470
Other local	6,544,803	102,104	2,808,715	92,714	9,548,336
Total revenues	28,956,933	102,104	2,813,887	92,714	31,965,638
Expenditures:					
Instruction	19,344,101	-	-	-	19,344,101
Instruction-related services:					
Supervision of instruction	1,241,434	-	-	-	1,241,434
Instruction library, media and technology	132,186	-	-	-	132,186
School site administration	1,450,168	-	-	-	1,450,168
Pupil services:					
Home-to-school transportation	84,393	-	-	-	84,393
Food services	-	-	-	4,247	4,247
All other pupil services	877,769	-	-	-	877,769
General administration:					
Data processing	318,122	-	-	-	318,122
All other general administration	1,492,407	-	-	-	1,492,407
Plant services	2,571,986	40,934	-	6,109	2,619,029
Facility acquisition and construction	55,711	-	-	-	55,711
Community services	260,777	-	-	-	260,777
Transfers between agencies	94,292	-	-	-	94,292
Debt service:					
Principal	50,534	-	1,998,548	-	2,049,082
Interest and fees	58,818	-	614,503	-	673,321
Total expenditures	28,032,698	40,934	2,613,051	10,356	30,697,039
Excess (deficiency) of revenues over (under) expenditures	924,235	61,170	200,836	82,358	1,268,599
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	1,004,235	(18,830)	200,836	82,358	1,268,599
Fund balances beginning	6,024,514	127,378	2,532,353	162,815	8,847,060
Fund balances ending	\$ 7,028,749	\$ 108,548	\$ 2,733,189	\$ 245,173	\$ 10,115,659

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, 2018

Total net change in fund balances - governmental funds	\$ 1,268,599
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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 \$152,208 was less than depreciation expense of \$2,479,598 in the period.

(2,327,568)

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	\$	1,998,548	
Bond premiums		148,725	
Amortization of loss on refunding		(333,152)	
Accreted Interest		(2,787,800)	(973,679)

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.

8,000

In governmental funds, actual contributions to pension plans are reported as expenditures in the year incurred. However, in the government-wide statement of activities, only the current year pension expense as noted in the plans' valuation reports is reported as an expense, as adjusted for deferred inflows and outflows of resources.

(1,697,422)

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.

(36,253)

In governmental funds, actual contributions to OPEB plans are reported as expenditures in the year incurred. However, in the government-wide statement of activities, only the current year OPEB expense as noted in the plan's valuation reports is reported as an expense, as adjusted for deferred inflows and outflows of resources.

(248,751)

Change in net position of governmental activities	\$ (4,007,074)
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The notes to basic financial statements are an integral part of this statement

Hillsborough City School District
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2018

	Student Body Agency Fund
Assets	
Cash on hand and in banks	\$ 129,603
Total Assets	<u>\$ 129,603</u>
Liabilities	
Due to student groups	\$ 129,603
Total Liabilities	<u>\$ 129,603</u>

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

Notes to the Basic Financial Statements

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

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 financial reporting entity only consists of the primary government, the District. The District has evaluated whether any other entity should be included in these financial statements using the criteria established by GASB which requires local governments to report: (a) organizations for which the primary government is financially accountable, and (b) other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the component unit's board, **and** either (a) the City has the ability to impose its will on the organization, or (b) there is a potential for the organization to provide a financial benefit to or impose a financial burden on the City.

For the fiscal year ended June 30, 2015, the District had included the Hillsborough Schools Foundation and the Hillsborough Recreation in its government-wide financial statements. However, these entities no longer meet the definition of a component unit as defined above, and, therefore, has not been included in the District's June 30, 2018 government-wide financial statements.

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

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

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.

D. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds use the accrual basis of accounting.

Revenues - Exchange and Non-exchange Transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, "available" means collectible within the current period or within 60 days after year-end.

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:

Deferred outflow of resources is a consumption of net assets by the government that is applicable to a future reporting period; for example, prepaid items and deferred charges.

Deferred inflow of resources is an acquisition of net assets by the government that is applicable to a future reporting period; for example, unearned revenue and advance collections.

Unearned Revenue:

Unearned revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred inflows from unearned 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 from unearned 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

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

and amortization, are not recognized in the governmental funds. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

E. Fund Accounting

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

Major Governmental Funds:

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

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

Fiduciary Funds:

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

F. Budgets and Budgetary Accounting

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

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

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. Encumbrances

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

H. Benefit Plans

Pensions

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

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

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Measurement Period	July 1, 2016 to June 30, 2017

Other Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense information about the fiduciary net position of the District's Retiree Benefits Plan (the OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis as they are reported by the OPEB Plan. For this purpose, the OPEB Plan recognizes benefit payments when due and payable in accordance with the benefit terms.

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

I. Assets, Liabilities, and Equity

a) Cash and Investments

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

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

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) Prepaid Expenditures

Prepaid expenditures

The District has the option of reporting expenditures in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditure in the benefiting period.

d) 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. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

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

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

e) Unearned Revenue

Cash received for federal and state special projects and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Unearned revenue is recorded as a deferred inflow to the extent that cash received on specific projects and programs exceeds qualified expenditures.

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

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

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:

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

- Non-spendable 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. Fund balance may be assigned by the Governing Board or its designee.
- 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.

Hillsborough City School District
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For the Year Ended June 30, 2018

Debt Service restrictions reflect the cash balances in the debt service funds that are restricted for debt service payments by debt covenants.

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

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

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

j) Local Control Funding Formula and Property Taxes

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

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

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

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

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.

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

k) Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The District has joined together with other school districts in the County to form the San Mateo County Schools Insurance Group ("SMCSIG") public entity risk pool. The District pays an annual premium for its property and casualty, workers' compensation, and liability insurance coverage. The Joint Powers Agreements provide that SMCSIG will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of self-insured levels.

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

l) Accounting Estimates

The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

m) Subsequent Events

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

The District issued \$840,000 of Tax and Revenue Anticipation Notes dated July 12, 2018. The notes mature on June 28, 2019 and have a three percent interest rate. The notes were sold to supplement cash flow. Repayment requirements are that fifty percentage of principal be deposited with the Fiscal Agent by January 1, 2019 and remaining principal and interest be deposited by April 1, 2019.

J. Implemented New Accounting Pronouncements

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions - The provisions in Statement 75 are effective for the fiscal year ended June 30, 2018. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement replaces the requirements of Statements No. 45, Accounting and

Hillsborough City School District
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Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB. Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, establishes new accounting and financial reporting requirements for OPEB plans.

The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity. In this Statement, distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, the OPEB plan administrator, and the plan members.

As of June 30, 2018, according to GASB 75, the District's net OPEB liability must be recognized. Therefore, the previous net OPEB liability as of June 30, 2017 in the amount of \$2,202,833 has been shown as a restatement of net position in the Statement of Activities as a separate line item.

GASB Statement No. 86, *Certain Debt Extinguishment Issues* - The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for financial statements for periods beginning after

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June 15, 2017. Earlier application is encouraged. This statement did not have an impact on the District's financial statements.

K. Upcoming Accounting and Reporting Changes

GASB Statement No. 83, *Certain Asset Retirement Obligations* - This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2018. Earlier application is encouraged. The District doesn't believe this statement will have a significant impact on the District's financial statements.

GASB Statement No. 84, *Fiduciary Activities* - The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

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

GASB issued Statement No. 87, *Leases* - The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this statement are effective for the District's fiscal year ending June 30, 2021. The District doesn't believe this statement will have a significant impact on the District's financial statements.

GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements* - This Statement addresses additional information to be disclosed in the notes to the financial statements regarding debt, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of

Hillsborough City School District
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For the Year Ended June 30, 2018

default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2018. Earlier application is encouraged. The District doesn't believe this statement will have a significant impact on the District's financial statements.

GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of the Construction Period* - This Statement addresses interest costs incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2019. Earlier application is encouraged. The District doesn't believe this statement will have a significant impact on the District's financial statements.

GASB Statement No. 87, *Leases* - The primary objective of this Statement is to increase the usefulness of governments' financial statement by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2019. Earlier application is encouraged. The District is currently evaluating the impact on the financial statements and ensuring the required data will be available for disclosure.

2. CASH AND INVESTMENTS

A summary of cash and investments as of June 30, 2018 is as follows:

Description	Carrying Amount	Fair Value	Investment Rating
Government-Wide Statements:			
Cash in revolving funds	\$ 4,900	\$ 4,900	Not Rated
Local Agency Investment Fund	1,808	1,805	N/A
Cash with County	10,462,012	10,414,724	N/A
Total Cash and Investments	<u>\$ 10,468,720</u>	<u>\$ 10,421,428</u>	
Fiduciary Funds:			
Cash in Banks	<u>\$ 129,603</u>	<u>\$ 129,603</u>	

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

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, 2018, 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.

The District has the following recurring fair value measurements as of June 30, 2018:

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.

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

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 \$1.469 billion and an amortized book value of \$1.475 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 AA by Moody'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.

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

3. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following as of June 30, 2018:

Description	General Fund	Special Reserve for Capital Outlay Fund	Bond Interest Redemption	Nonmajor Funds	Total
Federal Government	\$ 88,617	\$ -	\$ -	\$ -	\$ 88,617
State Government	146,469	-	-	-	146,469
Local Government	-	-	-	930	930
Unrestricted	42,644	727	10,467	262	54,100
Total Accounts Receivable	<u>\$ 277,730</u>	<u>\$ 727</u>	<u>\$ 10,467</u>	<u>\$ 1,192</u>	<u>\$ 290,116</u>

4. INTERFUND TRANSACTIONS

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

Interfund Receivables/Payables (Due From/Due To)

As of June 30, 2018, 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, 2018 the District had the following transfers:

Description	Transfers In	Transfers Out
General Fund	\$ 80,000	\$ -
Special Reserve for Capital Outlay Fund	-	80,000
Totals	<u>\$ 80,000</u>	<u>\$ 80,000</u>

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

5. CAPITAL ASSETS AND DEPRECIATION

Capital asset activities for the year ended June 30, 2018 were as follows:

Capital Assets	Balance July 01, 2017	Additions	Adjustments/ Deletions	Balance June 30, 2018
Land - not depreciable	\$ 228,711	\$ -	\$ -	\$ 228,711
Land Improvements	1,805,077	9,288	-	1,814,365
Buildings and Improvements	77,044,728	46,423	-	77,091,151
Furniture and Equipment	2,361,283	96,497	-	2,457,780
Total capital assets	81,439,799	152,208	-	81,592,007
Less accumulated depreciation for:				
Land Improvements	1,306,933	75,968	-	1,382,901
Buildings and Improvements	26,109,840	2,330,138	-	28,439,978
Furniture and Equipment	1,784,791	73,670	-	1,858,461
Total accumulated depreciation	29,201,564	2,479,776	-	31,681,340
Total capital assets - net depreciation	\$ 52,238,235	\$ (2,327,568)	\$ -	\$ 49,910,667

Depreciation expense was charged to the following governmental activities:

Instruction	\$ 1,727,347
Supervision of instruction	117,562
Instruction library, media and technology	13,178
School site administration	133,310
Home-to-school transportation	14,532
All other pupil services	76,555
Community services	20,328
All other general administration	126,338
Data process services	33,985
Plant services	216,641
Total depreciation expense	\$ 2,479,776

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

6. LONG-TERM LIABILITIES

Schedule of Changes in Long-term Liabilities

The following summarizes the District's changes in long-term debt for the fiscal year ended June 30, 2018:

Description	Balance July 01, 2017	Additions	Adjustments & Deletions	Balance June 30, 2018	Due Within One Year
General Obligation Bonds	\$ 80,459,390	\$ 2,809,252	\$ 2,168,725	\$ 81,099,917	\$ 2,095,635
Net Pension Obligations	26,465,605	16,378,346	11,889,751	30,954,200	-
Net OPEB Obligation	2,065,135	4,681,086	2,229,502	4,516,719	-
Compensated Absences	187,943	36,253	-	224,196	-
Total Long-term Liabilities	\$ 109,178,073	\$ 23,904,937	\$ 16,287,978	\$ 116,795,032	\$ 2,095,635

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

General Obligation Bonds Payable

The following summarizes the bonds outstanding as of June 30, 2018:

Bond	Maturity Date Sept 1,	Interest Rate %	Original Issue	Bonds Outstanding July 01, 2017	Adjustments Accretion/ Issued	Adjustments & Redeemed	Bonds Outstanding June 30, 2018
2002 GOB Series B	2031	4.74-4.88	\$ 12,011,422	\$ 12,011,422	\$ -	\$ -	\$ 12,011,422
2002 GOB, Series C	2045	2.35-7.30	19,660,012	570,482	-	18,548	551,934
2012 Refunding Bonds	2027	0.20-2.57	8,850,000	7,680,000	-	365,000	7,315,000
2016A Refunding Bonds	2022	2.00-4.00	9,390,000	9,390,000	-	1,455,000	7,935,000
2016B Refunding Bonds	2022	2.00-4.00	2,345,000	2,345,000	-	160,000	2,185,000
2016B Refunding Bonds	2042	2.678-4.550	39,063,647	39,063,647	-	-	39,063,647
Subtotal General Obligation Bonds			91,320,081	71,060,551	-	1,998,548	69,062,003
Accreted Interest			73,080,081	8,506,487	2,809,252	21,452	11,294,287
Bond Premiums			-	892,352	-	148,725	743,627
Total General Obligation Bonds			\$ 164,400,162	\$ 80,459,390	\$ 2,809,252	\$ 2,168,725	\$ 81,099,917

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

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

For the Fiscal Year Ending June 30,	Principal	Interest	Total
2019	\$ 2,095,635	\$ 759,847	\$ 2,855,482
2020	2,313,874	706,440	3,020,314
2021	2,559,420	642,765	3,202,185
2022	2,839,093	556,562	3,395,655
2023	3,136,072	469,296	3,605,368
2024-2028	9,928,471	8,734,979	18,663,450
2029-2033	8,748,260	18,683,388	27,431,648
2034-2038	17,725,124	20,769,096	38,494,220
2039-2043	18,892,981	33,844,981	52,737,962
2044-2047	823,073	1,796,927	2,620,000
Total Debt Service	<u>\$ 69,062,003</u>	<u>\$ 86,964,281</u>	<u>\$ 156,026,284</u>

7. CALPERS PENSION PLAN

General Information about the PERS Pension Plan

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

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

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

The Plans' provisions and benefits in effect at June 30, 2018, 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	55	62
Monthly benefits as a % of eligible compensation	2.0% to 2.5%	2.00%
Required employee contribution rates	7.0%	6.0%
Required employer contribution rates	15.531%	15.531%

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 the year ended June 30, 2018, the District's contributions were \$444,062:

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

As of June 30, 2018, 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	<u>\$ 5,984,871</u>

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2017, 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, 2016 rolled forward to June 30, 2017 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.

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

The District's proportionate shares of the net pension liability for the Plan as of, June 30, 20167 and 20178 was as follows:

	<u>CalPERS</u>
Proportion - June 30, 2017	0.02470%
Proportion - June 30, 2018	0.02507%
Change - Increase/(Decrease)	<u>0.00037%</u>

For the year ended June 30, 2018, the District recognized pension expense of \$517,833 for the Plan. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>CalPERS</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes of Assumptions	\$ 803,720	\$ -
Differences between Expected and Actual Experience	214,413	-
Differences between Projected and Actual Investment Earnings	207,036	-
Differences between Employer's Contributions and Proportionate Share of Contributions	-	4,429
Change in Employer's Proportion	-	21,111
Pension Contributions Made Subsequent to Measurement Date	503,369	-
Total	<u>\$ 1,728,538</u>	<u>\$ 25,540</u>

The District reported \$503,369 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Fiscal Year Ending June 30:</u>	<u>Outflows/(Inflows) of Resources CalPERS</u>
2019	\$ 314,603
2020	572,109
2021	426,290
2022	(113,373)
2023	-
Thereafter	-
Total	<u>\$ 1,199,629</u>

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

Actuarial Assumptions - The total pension liabilities in the June 30, 2016 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	(1)
Investment Rate of Return	7.5% (2)
Mortality	(3)

(1) Varies by age and service

(2) Net of pension plan investment expenses, including inflation

(3) Derived using CalPERS' membership data for all funds

Discount Rate - The discount rate used to measure the total pension liability was 7.15 percent for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, CalPERS stress tested plans 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 plans run out of assets. Therefore, the current 7.15 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 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 each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

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	New Strategic Allocation	Real Return Years 1 - 10 (a)	Real Return Years 11+ (b)
Global Equity	47.00%	4.90%	5.38%
Fixed Income	19.00%	0.80%	2.27%
Inflation Sensitive	6.00%	0.60%	1.39%
Private Equity	12.00%	6.60%	6.63%
Real Estate	11.00%	2.80%	5.21%
Infrastructure and Forestland	3.00%	3.90%	5.36%
Liquidity	2.00%	-0.40%	-0.90%
Total	100.00%		

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% 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 \$	8,805,663
1% Decrease	7.15%
Net Pension Liability \$	5,984,871
1% Increase	8.15%
Net Pension Liability \$	3,644,788

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

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

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

General Information about the STRS Pension Plan

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

Benefits Provided - STRS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. The cost of living adjustments for the Plan are applied as specified by the retirement Law.

The Plan's provisions and benefits in effect at June 30, 2018, 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	2.000%	2.000%
Required employee contribution rates	10.250%	9.205%
Required employer contribution rates	14.430%	14.430%

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, 2018, the District contributions were as follows.

	CalSTRS
Employer Contributions	\$ 2,003,090
State Contributions	1,180,663
Total	<u>\$ 3,183,753</u>

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

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

As of June 30, 2018, 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	\$ 24,969,330
State	9,281,100
Total	<u>\$ 34,250,430</u>

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2017, 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, 2016 rolled forward to June 30, 2017 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 decreased beginning net position by \$391,157 to reduce its beginning CalSTRS net pension obligation due to corrections in its proportionate share calculations. The state contributed 8.828 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 2046-2047.

The District's proportionate shares of the net pension liability as follows:

	CalSTRS
Proportion - June 30, 2017	0.02700%
Proportion - June 30, 2018	0.02700%
Change - Increase/(Decrease)	<u>0.00000%</u>

For the year ended June 30, 2018, the District recognized pension expense of \$2,367,349 for the Plan.

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

At June 30, 2018, 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	\$ 4,625,910	\$ -
Differences between Expected and Actual Experience	-	343,170
Differences between Projected and Actual Investment Earnings	-	665,010
Differences between Employer's Contributions and Proportionate Share of Contributions	743,782	-
Change in Employer's Proportion	-	91,420
Pension Contributions Made Subsequent to Measurement Date	2,003,090	-
Total	\$ 7,372,782	\$ 1,099,600

The District reported \$2,003,090 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, 2019.

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

Fiscal Year Ending June 30:	Outflows/(Inflows) of Resources CalSTRS
2019	\$ 264,891
2020	1,236,216
2021	878,196
2022	226,821
2023	757,697
Thereafter	906,271
Total	\$ 4,270,092

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

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

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.10%
Inflation	2.75%
Payroll Growth	3.50%
Projected Salary Increase	(1)
Investment Rate of Return	7.50% (2)
Mortality	(3)

(1) Varies by age and service. Approximately 6% average over career including inflation

(2) Net of pension plan investment expenses and administrative expenses, including inflation

(3) Derived using CalSTRS' membership data for all funds

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

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

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

⁽¹⁾ 20 year average

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

	CalSTRS
1% Decrease	6.10%
Net Pension Liability	\$ 36,663,300
Current	7.10%
Net Pension Liability	\$ 24,969,330
1% Increase	8.10%
Net Pension Liability	\$ 15,479,370

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

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

9. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

Plan Description

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

Benefits

The following summarizes the benefits in the plan:

	Certificated Management	Certificated	Classified	Classified Management	Confidential
Benefits Provided:	Medical and dental	Medical and dental	Medical and dental	Medical and dental	Medical and dental
Duration of Benefits:	The greater of 5 years or to Medicare eligibility*	The greater of 5 years or to Medicare eligibility*	The greater of 5 years or to Medicare eligibility*	The greater of 5 years or to Medicare eligibility*	The greater of 5 years or to Medicare eligibility*
Required Services:	None	15 years*	15 years*	None	6 year*
Minimum Age:	STRS retirement	STRS retirement	55*	PERS retirement	PERS retirement
Dependent Coverage:	No	No	No	No	No
District Contribution %	100%	100%	100%	100%	100%
District Cap	\$633 per month*	\$193 per month*	\$193 per month*	\$750 per month*	6 yrs service: \$194.50; 9 yrs service: \$291.75; 15 yrs service: \$389.00*

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

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

Employees Covered by Benefit Terms

At June 30, 2018 (the valuation date), the benefit terms covered the following employees:

Active employees	183
Inactive employees	62
Total employees	245

Contributions

The District makes contributions based on an actuarially determined rate and are approved by the authority of the District's Board. Total contributions to the OPEB plan during the year were \$0. Total benefit payments included in the measurement period were \$186,724. The actuarially determined contribution for the measurement period was \$164,367. The District's contributions and benefit payments were 1.06% of payroll during the measurement period.

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

June 30, 2018 (reporting period June 30, 2018). Employees are not required to contribute to the plan. There have been no assets accumulated in a trust to provide for the benefits of this plan.

Actuarial Assumptions

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

Valuation Date:	June 30, 2018
Measurement Date:	June 30, 2018
Actuarial Cost Method:	Entry-Age Normal Cost Method
Amortization Period:	20 years
Actuarial Assumptions:	
Discount Rate	3.80%
Inflation	2.75%
Payroll Increases	2.75%
Municipal Bond Rate	3.80%
Mortality	2009 CalSTRS Mortality 2014 CalPERS Active Mortality for Miscellaneous employees
Retirement	2009 CalSTRS Mortality Hired before 1/1/2013: 2009 CalPERS Retirement Rates for School Employees Hired after 12/31/2012: 2009 CalPERS Retirement Rate for Miscellaneous Employees 2%@60 adjusted to minimum retirement age of 52
Service Requirement	Either pension eligibility or Section 22893 depending on hire date and employee choice

Discount Rate

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

Total OPEB Liability

The District's total OPEB liability was measured as of June 30, 2018 (measurement date) and was determined by an actuarial valuation as of June 30, 2018 (valuation date) for the fiscal year ended June 30, 2018 (reporting date).

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

Changes in the Total OPEB Liability

The following summarizes the changes in the net OPEB liability during the year ended June 30, 2018, for the measurement date of June 30, 2018

Fiscal Year Ended June 30, 2018 (Measurement Date June 30, 2018)	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance at June 30, 2017	\$ 4,267,968	\$ -	\$ 4,267,968
Service cost	249,449	-	249,449
Interest in Total OPEB Liability	163,669	-	163,669
Employer contributions	-	-	-
Employer implicit subsidy	-	-	-
Employee contributions	-	-	-
Balance of diff between actual and exp experience	-	-	-
Balance of diff between actual and exp earnings	-	-	-
Balance of changes in assumptions	-	-	-
Actual investment income	-	-	-
Administrative expenses	-	-	-
Benefit payments	(164,367)	-	(164,367)
Other	-	-	-
Net changes	248,751	-	248,751
Balance at June 30, 2018	\$ 4,516,719	\$ -	\$ 4,516,719
Covered Payroll at Measurement Date	\$ 17,131,760		
Total OPEB Liability as a % of covered payroll	26.36%		
Plan Fid. Net Position as a % of Total OPEB Liability	0.00%		
Service cost as a % of covered payroll	1.46%		
Net OPEB Liability as a % of covered payroll	26.36%		

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.

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

OPEB Expense

The following summarizes the OPEB expense by source during the year ended June 30, 2018, for the measurement date of June 30, 2018:

Service cost	\$ 249,449
Interest in TOL	163,669
Expected investment income	(463,243)
Other	-
Employee contributions	-
Difference between actual and expected experience	-
Difference between actual and expected earnings	463,243
Change in assumptions	-
Administrative expenses	-
OPEB Expense	<u>\$ 413,118</u>

The following summarizes changes in the net OPEB liability as reconciled to OPEB expense during the year ended June 30, 2018, for the measurement date of June 30, 2018:

Total OPEB liability ending	\$ 4,516,719
Total OPEB liability beginning	(4,267,968)
Change in total OPEB liability	248,751
Changes in deferred outflows	-
Changes in deferred inflows	-
Employer contributions	164,367
OPEB Expense	<u>\$ 413,118</u>

Sensitivity to Changes in the Discount Rate

The net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher, is as follows:

	Municipal Bond Rate		
	2.8% (1% Decrease)	3.8% (Current Rate)	4.8% (1% Increase)
Total OPEB Liability	\$ 5,195,319	\$ 4,516,719	\$ 3,908,913

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

Sensitivity to Changes in the Healthcare Cost Trend Rates

The net OPEB liability of the District, as well as what the District's net 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		
	3.0% (1% Decrease)	4.0% (Current Rate)	5.0% (1% Increase)
Total OPEB Liability	\$ 3,991,256	\$ 4,516,719	\$ 5,066,263

10. COMMITMENTS AND CONTINGENCIES

Litigation

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

Federal and State Allowances, Awards and Grants

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

Tax and Revenue Anticipation Notes

The District issued \$1,570,000 of Tax and Revenue Anticipation Notes dated July 6, 2017. The notes mature on June 28, 2018, and yield two percent interest. The notes were sold to supplement cash flow. Repayment requirements were that fifty percentage of principal be deposited with the Fiscal Agent by January 01, 2018 and remaining principal and interest be deposited by April 01, 2018. By April 30, 2018, the District had placed 100 percent of principal and interest in a restricted account within the county treasury for the sole purpose of satisfying the notes. The District is not required to make any additional payments on the notes.

11. JOINT POWERS AGREEMENTS

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

The JPA arranges for and provides for various types of insurances for its member districts as requested. The JPA is governed by a board consisting of a representative from each member district. The board controls the operations of the JPA, including selection of management and

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2018

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

REQUIRED
SUPPLEMENTARY
INFORMATION

Hillsborough City School District
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (GAAP)
General Fund
For the Fiscal Year Ended June 30, 2018

	Budgeted Amounts		Actual (GAAP Basis)	Variance with Final Budget Positive - (Negative)
	Original	Final		
Revenues:				
LCFF/Property Taxes	\$ 19,999,652	\$ 20,240,709	\$ 20,270,044	\$ 29,335
Federal	277,640	269,788	269,788	-
Other state	1,389,265	1,850,583	1,872,298	21,715
Other local	6,149,668	6,498,772	6,544,803	46,031
Total revenues	27,816,225	28,859,852	28,956,933	97,081
Expenditures:				
Certificated salaries	14,268,710	14,314,307	14,174,944	139,363
Classified salaries	3,395,179	3,451,225	3,375,034	76,191
Employee benefits	5,448,153	5,907,840	5,906,883	957
Books and supplies	980,626	1,121,443	1,041,080	80,363
Services and other operating expenditures	3,525,966	3,700,425	3,205,582	494,843
Capital outlay	105,000	207,568	171,720	35,848
Other outgo	159,783	168,205	157,455	10,750
Total expenditures	27,883,417	28,871,013	28,032,698	838,315
Excess (deficiency) of revenues over (under) expenditures	(67,192)	(11,161)	924,235	935,396
Other financing sources (uses):				
Transfers in	80,000	80,000	80,000	-
Total other financing sources (uses)	80,000	80,000	80,000	-
Changes in fund balance	\$ 12,808	\$ 68,839	1,004,235	\$ 935,396
Fund balance beginning			6,024,514	
Fund balance ending			\$ 7,028,749	

The budgetary control level is by object on the modified accrual basis per U.S. GAAP. Expenditures can not legally exceed appropriations by major object.

Hillsborough City School District
Schedule of CalPERS Pension Plan Contributions
For the Fiscal Year Ended June 30, 2018

CalPERS Plan				
Plan Measurement Date	2017	2016	2015	2014
Fiscal Year Ended	2018	2017	2016	2015
Contractually Required Contributions	\$ 503,369	\$ 444,062	\$ 350,898	\$ 332,046
Contributions in Relation to Contractually Required Contributions	503,369	444,062	350,898	332,046
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -
Covered Employee Payroll	\$ 3,241,060	\$ 3,197,451	\$ 2,961,839	\$ 2,820,882
Contributions as a Percentage of Covered Payroll	15.53%	13.89%	11.85%	11.77%

Notes to Schedule:

Valuation Date: June 30, 2016
Assumptions Used: Entry Age Method used for Actuarial Cost Method
Level Percentage of Payroll and Direct Rate Smoothing
4 Years Remaining Amortization Period
Inflation Assumed at 2.75%
Investment Rate of Returns set at 7.5%
CalPERS mortality table using 20 years of membership data for all funds

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

This schedule provides information about the District's required and actual contributions to CalPERS during the year.
Fiscal year 2015 was the first year of implementation, therefore only four years are shown.
There were no changes in benefit terms.
PERS discount rates were reduced from 7.5 to 7.65 in 2017 and then again to 7.15 in 2018.

Hillsborough City School District
Schedule of CalPERS Proportionate Share of Net Pension Liabilities
For the Fiscal Year Ended June 30, 2018

CalPERS Plan				
Plan Measurement Date	2017	2016	2015	2014
Fiscal Year Ended	2018	2017	2016	2015
Proportion of Net Pension Liability	0.02507%	0.02541%	0.02533%	0.02570%
Proportionate Share of Net Pension Liability	\$ 5,984,871	\$ 5,018,892	\$ 3,733,599	\$ 2,917,576
Covered Payroll	\$ 3,197,451	\$ 2,961,839	\$ 2,820,882	\$ 2,724,309
Proportionate Share of NPL as a % of Covered Payroll	187.18%	169.45%	132.36%	107.09%
Plan's Fiduciary Net Position as a % of the TPL	71.87%	73.90%	79.43%	83.38%

This schedule presents information on the District's portion of the net pension liability of CalPERS in compliance with GASB 68. Fiscal year 2015 was the first year of implementation, therefore only four years are shown. There were no changes in benefit terms. PERS discount rates were reduced from 7.5 to 7.65 in 2017 and then again to 7.15 in 2018.

Hillsborough City School District
Schedule of STRS Pension Plan Contributions
For the Fiscal Year Ended June 30, 2018

CalSTRS Plan

Plan Measurement Date Fiscal Year Ended	2017 2018	2016 2017	2015 2016	2014 2015
Contractually Required Contributions	\$ 2,003,090	\$ 1,769,285	\$ 1,465,703	\$ 1,157,499
Contributions in Relation to Contractually Required Contributions	2,003,090	1,769,285	1,465,703	1,157,499
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 13,881,428	\$ 14,064,269	\$ 13,659,860	\$ 13,034,899
Contributions as a Percentage of Covered Payroll	14.43%	12.58%	10.73%	8.88%

Notes to Schedule:

Valuation Date: June 30, 2016
Assumptions Used: Entry Age Method used for Actuarial Cost Method
Level Percentage of Payroll
7 Years Remaining Amortization Period
Inflation Assumed at 3.00%
Investment Rate of Returns set at 7.50%
STRS mortality table using membership data for all funds

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

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

There were no changes in benefit terms.

STRS discount rates were reduced from 7.60 in 2017 to 7.10 in 2018.

Hillsborough City School District
Schedule of STRS Proportionate Share of Net Pension Liabilities
For the Fiscal Year Ended June 30, 2018

CalSTRS Plan				
Plan Measurement Date	2017	2016	2015	2014
Fiscal Year Ended	2018	2017	2016	2015
Proportion of Net Pension Liability	0.02700%	0.02652%	0.02642%	0.02687%
Proportionate Share of Net Pension Liability	\$ 24,969,330	\$ 21,446,713	\$ 17,786,323	\$ 15,702,742
Covered Payroll	\$ 14,064,269	\$ 13,659,860	\$ 13,034,899	\$ 12,133,816
Proportionate Share of NPL as a % of Covered Payroll	177.54%	157.01%	136.45%	129.41%
Plan's Fiduciary Net Position as a % of the TPL	69.46%	70.04%	74.02%	76.52%

This schedule presents information on the District's portion of the net pension liability of CalSTRS in compliance with GASB 68. Fiscal year 2015 was the first year of implementation, therefore only four years are shown. There were no changes in benefit terms. STRS discount rates were reduced from 7.60 in 2017 to 7.10 in 2018.

Hillsborough City School District
Schedule of Contributions for Postemployment Benefits
For the Fiscal Year Ended June 30, 2018

	Fiscal Year Ended June 30, 2018
Actuarially determined contribution (ADC)	\$ 575,938
Less: actual contribution in relation to ADC	(164,367)
Contribution deficiency (excess)	<u>\$ 411,571</u>
 Covered payroll for the fiscal year 2017/18	 \$ 17,131,760
Contributions as a percentage of covered payroll	0.96%

Notes to Schedule:

Assumptions and Methods

Valuation Date:	June 30, 2018
Measurement Date:	June 30, 2018
Actuarial Cost Method	Entry-Age Normal Cost Method
Amortization Period	20 years
Asset Valuation Method	Level percentage of payroll, closed
Actuarial Assumptions:	
Discount Rate	3.80%
Inflation	2.75%
Payroll Increases	2.75%
Investment Rate of Return	3.8%, Net of OPEB plan investment expenses, including inflation
Mortality	2009 CalSTRS Mortality 2014 CalPERS Active Mortality for Miscellaneous
Retirement	2009 CalSTRS Retirement Rates
	Hired >12/31/2012: CalPERS 2% @ 60 Rates for Miscellaneous Employess
Service Requirement	Either pension eligibility or Section 22893 depending on hire date and employee choice

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.

This plan is nontrusted, the amount shown above as contributions is actually benefit payments during the fiscal year.

This schedule is not required for nontrusted plans.

Hillsborough City School District
Schedule of Changes in Total OPEB Liability
For the Fiscal Year Ended June 30, 2018

	Fiscal Year Ended June 30, 2018
Total OPEB liability	
Service cost	\$ 249,449
Interest	163,669
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions	-
Benefit payments	(164,367)
Net change in Total OPEB Liability	248,751
Total OPEB Liability - beginning	4,267,968
Total OPEB Liability - ending	<u>\$ 4,516,719</u>
 Plan fiduciary net position	
Employer contributions	\$ 164,367
Employer implicit subsidy	-
Employee contributions	-
Net investment income	-
Difference between estimated and actual earnings	-
Benefit payments	(164,367)
Other	-
Administrative expense	-
Net change in plan fiduciary net position	-
Plan fiduciary net position - beginning	-
Plan fiduciary net position - ending	<u>\$ -</u>
 Net OPEB liability	 \$ 4,516,719
 Plan fiduciary net position as a percentage of the total OPEB liability	 0.00%
 Covered employee payroll	 \$ 17,131,760
 Net OPEB Liability as a percentage of covered payroll	 26.36%
 Total OPEB Liability as a percentage of covered payroll	 26.36%

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.

SUPPLEMENTARY
INFORMATION

***Nonmajor Governmental Funds
Combining Schedules***

Hillsborough City School District
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2018

	Special Revenue Funds	Capital Projects Funds	
	Cafeteria Fund	Capital Facilities Fund	Totals
Assets			
Cash and investments	\$ 13,711	\$ 230,270	\$ 243,981
Accounts receivable	262	930	1,192
	<u>13,973</u>	<u>231,200</u>	<u>245,173</u>
Total Assets	<u>\$ 13,973</u>	<u>\$ 231,200</u>	<u>\$ 245,173</u>
Liabilities and Fund Balances			
Fund balances:			
Restricted for:			
Capital projects	\$ -	\$ 231,200	\$ 231,200
Cafeteria programs	13,973	-	13,973
	<u>13,973</u>	<u>231,200</u>	<u>245,173</u>
Total Fund Balances	<u>13,973</u>	<u>231,200</u>	<u>245,173</u>
Total Liabilities and Fund Balances	<u>\$ 13,973</u>	<u>\$ 231,200</u>	<u>\$ 245,173</u>

Hillsborough City School District
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances
Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2018

	Special Revenue Fund	Capital Projects Funds	
	Cafeteria Fund	Capital Facilities Fund	Totals
Revenues:			
Other local	\$ 3,859	\$ 88,855	\$ 92,714
Total revenues	3,859	88,855	92,714
Expenditures:			
Pupil services:			
Food services	4,247	-	4,247
Plant services	-	6,109	6,109
Total expenditures	4,247	6,109	10,356
Changes in fund balances	(388)	82,746	82,358
Fund balances beginning	14,361	148,454	162,815
Fund balances ending	\$ 13,973	\$ 231,200	\$ 245,173

COMPLIANCE
SECTION

Hillsborough City School District
Organization (Unaudited)
June 30, 2018

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

Governing Board

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Lynne Esselstein	President	2018
Don Geddis	Vice President	2018
Greg Dannis	Clerk	2020
Margi Power	Member	2020
Gilbert Wai	Member	2018

Administration

Louann Carlomagno
Superintendent

Joyce Shen
Chief Business Official

Hillsborough City School District
Schedule of Average Daily Attendance
For the Fiscal Year Ended June 30, 2018

	Total ADA		Classroom Based	
	Second	Annual	Second	Annual
	Period	Report	Period	Report
Regular ADA:				
Grades TK/K through three	546.40	547.08	546.40	547.08
Grades four through six	462.93	462.86	462.93	462.86
Grades seven and eight	338.84	338.63	338.84	338.63
Regular ADA Totals	1,348.17	1,348.57	1,348.17	1,348.57
Extended year Special education				
Grades TK/K through three	0.51	0.51	0.51	0.51
Grades four through six	0.58	0.58	0.58	0.58
Grades seven and eight	0.71	0.71	0.71	0.71
Special education - nonpublic, nonsect schools:				
Grades four through six	0.94	0.96	0.94	0.96
Grades seven and eight	2.73	2.80	2.73	2.80
Extended year special education - nonpublic, nonsect schools:				
Grades TK/K through three	0.23	-	0.23	-
Grades four through six	0.12	0.23	0.12	0.23
Grades TK/K through three	-	0.12	-	0.12
ADA Totals	1,353.99	1,354.48	1,353.99	1,354.48

Hillsborough City School District
Schedule of Instructional Time
For the Fiscal Year Ended June 30, 2018

Grade Level	Minutes Requirements	2018 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Kindergarten	36,000	41,295	180	0	In Compliance
Grade 1	50,400	51,855	180	0	In Compliance
Grade 2	50,400	51,855	180	0	In Compliance
Grade 3	50,400	53,850	180	0	In Compliance
Grade 4	54,000	55,830	180	0	In Compliance
Grade 5	54,000	55,830	180	0	In Compliance
Grade 6	54,000	60,552	180	0	In Compliance
Grade 7	54,000	60,552	180	0	In Compliance
Grade 8	54,000	60,552	180	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.

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instruction time offered by the District and whether the District complied with the provisions of Education Code Sections 46200 through 46206. The District has not met or exceeded its target funding.

Hillsborough City School District
Schedule of Charter Schools (Unaudited)
For the Fiscal Year Ended June 30, 2018

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, 2018

	(Budget) ⁽¹⁾			
	2019	2018	2017	2016
<u>General Fund</u>				
Revenues and other financial sources	\$ 30,018,756	\$ 29,036,933	\$ 27,842,880	\$ 26,442,765
Expenditures	29,597,726	28,032,698	27,847,551	25,994,821
Total outgo	29,597,726	28,032,698	27,847,551	25,994,821
Change in fund balance	421,030	1,004,235	(4,671)	447,944
Adjustment for GASB 54 reclassifications	-	-	-	1,539,261
Ending fund balance	\$ 7,449,779	\$ 7,028,749	\$ 6,024,514	\$ 6,029,185
Available reserves ⁽²⁾	\$ 7,120,369	\$ 4,845,959	\$ 2,207,456	\$ 4,134,257
Designated for economic uncertainty	\$ 1,777,964	\$ 1,684,062	\$ -	\$ -
Unassigned fund balance	\$ 5,342,405	\$ 3,161,897	\$ 2,207,456	\$ 4,134,257
Available reserves as a percentage of total outgo	24%	17%	8%	16%
Total long-term debt	\$ 114,699,397	\$ 116,795,032	\$ 109,178,073	\$ 95,191,817
Average daily attendance at P-2	1,314	1,354	1,429	1,461

ADA has decreased by 107 over the past three years. The district anticipates an decrease of 40 ADA to remain level for 2019.

The general fund balance has increased by \$999,564 over the past three years and operated at a surplus in two out of the last three years. For a district this size, the state recommends available reserves of at least 3% of total general fund expenditures, transfers out and other uses (total outgo).

Total long-term debt has increased by \$21,603,215 over the past three years.

⁽¹⁾ Budget numbers are based on the first adopted budget of the fiscal year 2018/19

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

Hillsborough City School District
Reconciliation of Annual Financial and Budget Report (SACS)
to the Audited Financial Statements
For the Fiscal Year Ended June 30, 2018

	General Fund	Special Reserve for Capital Outlay Fund	Bond Interest & Redemption Fund	Other Nonmajor Governmental Funds
June 30, 2018 Annual Financial and Budget Report Fund Balances	\$ 5,318,592	\$ 108,548	\$ 2,733,189	\$ 1,955,330
Adjustments and Reclassifications: GASB 54 reclassifications	<u>1,710,157</u>	<u>-</u>	<u>-</u>	<u>(1,710,157)</u>
June 30, 2018 Audited Financial Statements Fund Balances	<u><u>\$ 7,028,749</u></u>	<u><u>\$ 108,548</u></u>	<u><u>\$ 2,733,189</u></u>	<u><u>\$ 245,173</u></u>

Hillsborough City School District
Notes to Compliance Section
For the Fiscal Year Ended June 30, 2018

1. PURPOSE OF SCHEDULES

A. Schedule of Average Daily Attendance

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

B. Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day and has not met its local control formula funding formula target. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of Education Code Sections 46200 through 46206 and whether the Charter School complied with Education Code Sections 47612 and 47612.5.

C. Schedule of Charter Schools

This schedule is provided to list all charter schools chartered by the District and displays information for each charter school on whether or not the charter school is included in the District audit.

D. Schedule of Financial Trends and Analysis

This schedule discloses the District's financial trends by displaying past years' data along with current year budget information. These financial trend disclosures are used to evaluate the District's ability to continue as a going concern for a reasonable period of time.

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

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

OTHER INDEPENDENT
AUDITOR'S REPORTS



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

Board of Trustees
Hillsborough City School District
Hillsborough, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hillsborough Unified School District (the District) as of and for the year ended June 30, 2018, 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 19, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion



on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed 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 19, 2018
San Jose, California



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

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

Compliance

We have audited the Hillsborough Unified School District's (the District) compliance with the types of compliance requirements described in the *2017-18 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, 2018.

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, *2017-18 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 *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. Those standards, and state audit, guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above, that could have a material effect on compliance with the state laws and regulations described in the schedule below, occurred. An audit includes examining, on a test basis, evidence supporting the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

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

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



<u>Description</u>	<u>Procedures Performed</u>
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
School Districts, County Offices of Education, and Charter Schools:	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After School Education and Safety Program:	
General Requirements	N/A
After School	N/A
Before School	N/A
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study-Course Based	N/A
Charter Schools:	
Attendance	N/A
Mode of Instruction	N/A
Nonclassroom-Based Instruction/Independent Study for Charter Schools	N/A
Determination of Funding for Nonclassroom-Based Instruction	N/A
Annual Instructional Minutes - Classroom Based	N/A
Charter School Facility Grant Program	N/A

We did not perform the audit procedures for the Independent Study program because the ADA was under the level that requires testing.

Opinion

In our opinion, Hillsborough City School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on State Programs for the fiscal year ended June 30, 2018.

C & A LLP

November 19, 2018
San Jose, California

FINDINGS AND RECOMMENDATIONS

Hillsborough City School District
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2018

Section I - Summary of Auditor's Results

Financial Statements

	<u>Unmodified</u>
Type of auditor's report issued	
Internal control over financial reporting:	
Material weaknesses?	_____ Yes <u>x</u> No
Significant deficiencies identified not considered to be material weaknesses?	_____ Yes <u>x</u> No
Non-compliance material to financial statements noted?	_____ Yes <u>x</u> No

Federal Awards

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

State Awards

Internal control over state programs:	
Material weaknesses?	_____ Yes <u>x</u> No
Significant deficiencies identified not considered to be material weaknesses?	_____ Yes <u>x</u> No
Type of auditor's report issued on compliance over state programs:	<u>Unmodified</u>

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

Section IV - State Award Findings and Questioned Costs

None

Hillsborough City School District
Schedule of Prior Year Findings and Recommendations
For the Fiscal Year Ended June 30, 2018

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

Section IV - State Award Findings and Questioned Costs

None