



2021-22 HSD



Bond Audit Report



Hillsboro School District 1J

Administration Center

**3083 NE 49th Place
Hillsboro, OR 97124**

www.hsd.k12.or.us

HILLSBORO SCHOOL DISTRICT 1J

Washington County, Oregon

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INTRODUCTION AND EXECUTIVE SUMMARY

Audit Purpose

In November 2017, the community authorized Hillsboro School District 1J to sell bonds in the amount of \$408,000,000 for Capital Improvements. In order to provide a high level of transparency and confidence, the Board of Directors requested an internal review of controls and transactions. This report documents the review as well as a third party opinion by Moss Adams LLC. The review period covers the 2021-22 fiscal year.

Management, Comprehensive Annual Financial Report, and Internal Controls

In addition to the bond fund specifics herein, all balance sheet, revenue, and expense transactions were subject to the standard annual testing procedures conducted by the district's independent audit firm, Grove, Mueller, Swank, P.C. The annual audit is conducted per policy [DIE- Audits](#) and the Comprehensive Annual Financial Reports are available by request and on the [district website](#).

Notes on Financial Information

In order to align with federal bond exemption rules, the bond authorization was separated into two bond sales. The first was immediately after the passage of the bond vote in November 2017 in the amount of \$268.4 million. The bonds earned \$51.6 million in premium during the sale and are estimated to bring an additional \$10.8 million in interest earnings.

The second bond sale for the remaining authorization of \$139.5 million occurred in February of 2020, weeks prior to the COVID 19 pandemic outbreak in Oregon. Although the district received a single downgrade from Moody's, the bonds earned \$28.5 million in premium and is estimated to yield \$3.1 million in interest. The district has engaged with the consultants of Arbitrage Compliance Specialists in order to plan for a potential of higher interest earnings than costs, triggering a tax obligation.

From July 2021 through June 2022, approximately \$7.4 million was expended on projects related to the initial bond sale, leaving an estimated balance of \$1.8 million. Additionally, approximately \$48.6 million was expended on projects related to the second bond sale, leaving an estimated balance of \$51.2 million.

Please visit the [bond website](#) for additional project information and contact [Michelle Morrison](#), the District Financial Officer with questions regarding this report.

October 7, 2022

Jeff Jones, Manager of Business Services
Hillsboro School District 1J
3083 NE 49th Place
Hillsboro, OR 97124

Re: Examination Services

Dear Jeff:

Thank you for the opportunity to provide services to Hillsboro School District 1J. This engagement letter ("Engagement Letter") and the attached Professional Services Agreement, which is incorporated by this reference, confirm our understanding of the terms and objectives of our engagement, and limitations of the services that Moss Adams LLP ("Moss Adams," "we," "us," and "our") will provide to Hillsboro School District 1J ("you," "your," and "District").

Scope of Services - Examination

We will examine management of the District's the assertion that its bond proceeds ("Subject Matter") were expended for the types of projects summarized in bond measure #34-278 ("Attachment A") ("Criteria") for the period July 1, 2021 through June 30, 2022 (the "Assertion"). These projects are safety improvements (seismic, safety, security, upgrades), repairs, replacements, and addressing overcrowding (mechanical, electrical, plumbing, hardscape, and roofing upgrades; replace Brookwood Elementary; improvements and expansion to existing schools; new elementary gymnasiums; drop-off safety improvements; playground, athletic field and other improvements), plan for future growth (two elementary schools and transportation/maintenance facility), learning environments (classroom and technology upgrades; job training, infrastructure, and equipment), and furnishing, equipping, and issuance costs.

Our examination will be conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants. Accordingly, it will include tests of your records and other procedures we consider necessary to enable us to express an opinion in a written report about whether the Assertion is fairly stated, in all material respects. If, for any reason, we are unable to complete the examination, we will not issue a report as a result of this engagement.

Because of the inherent limitations of an examination engagement, together with the inherent limitation of internal control, an unavoidable risk exists that some material misstatements may not be detected, even though the examination is properly planned and performed in accordance with attestation standards.

As a condition of our engagement, District management acknowledges and understands that it is responsible for the preparation and fair presentation of the Assertion and the accuracy and

completeness of that information. District management agrees that as a condition of our engagement District management will provide us with:

- Access to all information of which District management are aware that is relevant to the measurement, evaluation or disclosure of the Assertion,
- Access to additional information that we may request from District management for the purpose of the engagement; and
- Unrestricted access to persons within the appropriate party(ies) from whom we determine it necessary to obtain evidence.

We may advise you about appropriate Criteria or assist in the development of the Assertion, but the responsibility for the Assertion remains with you.

At the conclusion of our engagement, we will require a representation letter from management that, among other things, will confirm management's responsibility for the Assertion.

Timing

Ashley Osten is responsible for supervising the engagement and authorizing the signing of our report. We expect to begin fieldwork on approximately October 17, 2022, complete fieldwork on approximately October 21, 2022, and issue our report no later than November 30, 2022. If unforeseen difficulties occur which make meeting the issuance date improbable, we will inform you immediately. Our ability to meet these targets will be dependent, in part, on the level of preparation and cooperation by your staff.

Our scheduling is based on your completion of documents requested by Moss Adams. Efficient use of our staff benefits both you and Moss Adams, allowing for timely completion of our work. We may experience delays in completing our services due to your staff's unavailability or delays in your completing the documents requested by Moss Adams. We will work with you to coordinate completion of our work, realizing that any such delays will also delay completion of our work and the delivery of our work product. You understand our fees are subject to adjustment if we experience delays in completing our services. Our services will be concluded upon delivery to you of our examination report.

Fees

We estimate that our fees for these services will be \$20,000. You will also be billed for expenses.

The fee estimate is based on anticipated cooperation from your personnel, the expectation that the District's records will be in good order, and the assumption that unexpected circumstances will not be encountered during the completion of the examination. If we find that significant additional time is likely to be necessary, we will attempt to discuss it with you and arrive at a new fee estimate before we incur significant additional fees or expenses.

This Engagement Letter and attached Professional Services Agreement constitute the entire agreement (the "Agreement") and understanding between Moss Adams and the District. The District agrees that in entering into this Agreement it is not relying and has not relied upon any oral or other representation, promise or statement made by anyone which is not set forth herein.

We appreciate the opportunity to be of service to you. If you agree with the terms of our engagement as set forth in this Agreement, please sign the enclosed copy of this Engagement Letter and return it to us with the Professional Services Agreement.

Very truly yours,



Ashley Osten, Partner, for
Moss Adams LLP

Enclosures

Accepted and Agreed:

This Engagement Letter and the attached Professional Services Agreement set forth the entire understanding of Hillsboro School District 1J with respect to this engagement and the services to be provided by Moss Adams LLP:

Officer Signature: _____

Print Name: Adam Stewart

Title: Capital Projects Officer

Date: 10/7/2022

Client: # 661118
v. 6/24/2022

PROFESSIONAL SERVICES AGREEMENT

Examination Services

This Professional Services Agreement (the "PSA") together with the Engagement Letter, which is hereby incorporated by reference, represents the entire agreement (the "Agreement") relating to services to be provided to the District by Moss Adams. Any undefined terms in this PSA shall have the same meaning as set forth in the Engagement Letter.

Objective of the Examination

The objective of our examination is the expression of an opinion as stated in the Engagement Letter. Our examination will be conducted in accordance with the standards described in the Engagement Letter and will include tests of your records and other procedures we consider necessary to enable us to express such an opinion. We cannot provide assurance that an unmodified opinion will be expressed. Circumstances may arise in which it is necessary for us to modify our opinion. If our opinion is other than unmodified, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the examination or are unable to form or have not formed an opinion, we may decline to express an opinion or may withdraw from this engagement.

Procedures and Limitations

An examination includes examining evidence on a test basis and cannot be relied upon to disclose all material errors, or known or suspected fraud or noncompliance with laws or regulations or internal control deficiencies that may exist. Therefore, our examination will involve judgment about the number of transactions to be examined and the areas to be tested. Also, we will plan and perform the examination to obtain reasonable, but not absolute, assurance about whether the Assertion is fairly stated, in all material respects. A risk exists that we may not detect material misstatements because: (a) an examination is designed to provide reasonable, but not absolute, assurance the Assertion is fairly presented in all material respects, (b) we will not perform a detailed examination of all transactions as such is cost prohibitive, and (c) an examination is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the Assertion. However, we will inform you of any material errors, known or suspected fraud and noncompliance with laws or regulations, internal control deficiencies identified during the engagement, and uncorrected misstatements that come to our attention, unless clearly inconsequential. Our responsibility is limited to the period covered by our examination and does not extend to any time period for which we are not engaged as examiners.

Changes in Professional or Accounting Standards

To the extent that future federal, state, or professional rule-making activities require modification of our examination approach, procedures, scope of work, etc., we will advise you of such changes and the impact on our fee estimate. If we are unable to agree on the additional fees, if any, that may be required to implement any new accounting and examination standards that are required to be adopted and applied as part of our engagement, we may terminate this Agreement as provided herein, regardless of the stage of completion.

Representations of Management

During the course of our engagement, we may request information and explanations from management regarding, among other matters, the District's operations, internal control, future plans, specific transactions, and accounting systems and procedures. At the conclusion of our engagement, we will require, as a precondition to the issuance of our report, that management provide us with a written representation letter confirming some or all of the representations made during the engagement. The procedures we will perform in our engagement will be heavily influenced by the representations that we receive from management. While we may assist management in the preparation of the representation letter, it is management's responsibility to carefully review and understand the representations made therein.

Fees and Expenses

Billings are due upon presentation and become delinquent if not paid within 30 days of the invoice date. Any past due fee under this Agreement shall bear interest at the highest rate allowed by law on any unpaid balance. In addition to fees, you may be billed for expenses and any applicable sales and gross receipts tax. Direct expenses may be charged based on out-of-pocket expenditures, per diem allotments, and mileage reimbursements, depending on the nature of the expense. Indirect expenses, such as processing time and technology expenses, may be passed through at our estimated cost and may be billed as a flat charge or a percentage of fees. If we elect to suspend our engagement for nonpayment, we may not resume our work until the account is paid in full. If we elect to terminate our services for nonpayment, or as otherwise provided in this Agreement, our engagement will be deemed to have been completed upon written notification of termination, even if we have not completed our work. You will be obligated to compensate us for fees earned for services rendered and to reimburse us for expenses. You acknowledge and agree that in the event we stop work or terminate this Agreement as a result of your failure to pay on a timely basis for services rendered by Moss Adams as provided in this Agreement, or if we terminate this Agreement for any other reason, we shall not be liable to you for any damages that occur as a result of our ceasing to render services.

Limitation on Liability

IN NO EVENT WILL EITHER PARTY BE LIABLE TO THE OTHER FOR ANY SPECIAL, INDIRECT, INCIDENTAL, OR CONSEQUENTIAL DAMAGES IN CONNECTION WITH OR OTHERWISE ARISING OUT OF THIS AGREEMENT, EVEN

IF ADVISED OF THE POSSIBILITY OF SUCH DAMAGES. IN NO EVENT SHALL EITHER PARTY BE LIABLE FOR EXEMPLARY OR PUNITIVE DAMAGES ARISING OUT OF OR RELATED TO THIS AGREEMENT.

Subpoena or Other Release of Documents

As a result of our services to you, we may be required or requested to provide information or documents to you or a third-party in connection with governmental regulations or activities, or a legal, arbitration or administrative proceeding (including a grand jury investigation), in which we are not a party. You may, within the time permitted for our firm to respond to any request, initiate such legal action as you deem appropriate to protect information from discovery. If you take no action within the time permitted for us to respond or if your action does not result in a judicial order protecting us from supplying requested information, we will construe your inaction or failure as consent to comply with the request. Our efforts in complying with such requests or demands will be deemed a part of this engagement and we shall be entitled to additional compensation for our time and reimbursement for our out-of-pocket expenditures (including legal fees) in complying with such request or demand.

Document Retention Policy

At the conclusion of this engagement, we will return to you all original records you supplied to us. Your District records are the primary records for your operations and comprise the backup and support for the results of this engagement. Our records and files, including our engagement documentation whether kept on paper or electronic media, are our property and are not a substitute for your own records. Our firm policy calls for us to destroy our engagement files and all pertinent engagement documentation after a retention period of seven years (or longer, if required by law or regulation), after which time these items will no longer be available. We are under no obligation to notify you regarding the destruction of our records. We reserve the right to modify the retention period without notifying you. Catastrophic events or physical deterioration may result in our firm's records being unavailable before the expiration of the above retention period.

Except as set forth above, you agree that Moss Adams may destroy paper originals and copies of any documents, including, without limitation, correspondence, agreements, and representation letters, and retain only digital images thereof.

Use of Electronic Communication

In the interest of facilitating our services to you, we may communicate by facsimile transmission or send electronic mail over the Internet. Such communications may include information that is confidential. We employ measures in the use of electronic communications designed to provide reasonable assurance that data security is maintained. While we will use our best efforts to keep such communications secure in accordance with our obligations under applicable laws and professional standards, you recognize and accept we have no control over the unauthorized interception of these communications once they have been sent. Unless you issue specific instructions to do otherwise, we will assume you consent to our use of electronic communications to your representatives and other use of these electronic devices during the term of this Agreement as we deem appropriate.

Enforceability

In the event that any portion of this Agreement is deemed invalid or unenforceable, said finding shall not operate to invalidate the remainder of this Agreement.

Entire Agreement

This Professional Services Agreement and Engagement Letter constitute the entire agreement and understanding between Moss Adams and the District. The District agrees that in entering into this Agreement it is not relying and has not relied upon any oral or other representations, promise or statement made by anyone which is not set forth herein.

Use of Moss Adams' Name

The District may not use any of Moss Adams' name, trademarks, service marks or logos in connection with the services contemplated by this Agreement or otherwise without the prior written permission of Moss Adams, which permission may be withheld for any or no reason and may be subject to certain conditions.

Dispute Resolution Procedure, Venue and Limitation Period

This Agreement shall be governed by the laws of the state of Washington, without giving effect to any conflicts of laws principles. If a dispute arises out of or relates to the engagement described herein, and if the dispute cannot be settled through negotiations, the parties agree first to try in good faith to settle the dispute by mediation using an agreed upon mediator. If the parties are unable to agree on a mediator, the parties shall petition the state court that would have jurisdiction over this matter if litigation were to ensue and request the appointment of a mediator, and such appointment shall be binding on the parties. Each party shall be responsible for its own mediation expenses, and shall share equally in the mediator's fees and expenses.

Each party hereby irrevocably (a) consents to the exclusive jurisdiction and venue of the appropriate state or federal court located in King County, state of Washington, in connection with any dispute hereunder or the enforcement of any right or

obligation hereunder, and (b) WAIVES ITS RIGHT TO A JURY TRIAL. EACH PARTY FURTHER AGREES THAT ANY SUIT ARISING OUT OF OR RELATED TO THIS AGREEMENT MUST BE FILED WITHIN ONE (1) YEAR AFTER THE CAUSE OF ACTION ARISES.

Termination

This Agreement may be terminated by any party, with or without cause, upon ten (10) days' written notice. In such event, we will stop providing services hereunder except on work, mutually agreed upon in writing, necessary to carry out such termination. In the event of termination: (a) you shall pay us for services provided and expenses incurred through the effective date of termination, (b) we will provide you with all finished reports that we have prepared pursuant to this Agreement, and (c) neither party shall be liable to the other for any damages that occur as a result of our ceasing to render services.

Use of Nonlicensed Personnel

Certain engagement personnel who are not licensed as certified public accountants may provide services during this engagement.

Hiring of Employees

Any offer of employment to members of the engagement team prior to issuance of our report may impair our independence and as a result, may result in our inability to complete the engagement and issue a report.

Mutual Waiver of COVID-19 Claims

This provision addresses issues regarding the novel coronavirus ("COVID-19"). The parties acknowledge their respective understanding of the hazards of COVID-19, including, but not limited to, its highly contagious nature and the corresponding health risks associated with being exposed to or infected by COVID-19. Each party agrees to waive, release, discharge, and covenants not to sue the other party or its affiliates and its and their respective officers, directors, partners, principals, employees, agents, or subcontractors from any and all claims, damages, expense, liability, illness or losses that may occur from exposure to or infection by COVID-19 arising out of, related to, or in any way connected with the professional services provided by Moss Adams.

Representative Letter

November 18, 2022

Moss Adams LLP
805 SW Broadway, Suite 1200
Portland, OR 97205

We are providing this letter in connection with your examination of management of Hillsboro School District 1J's (the District) assertion that its bond proceeds ("Subject Matter") were expended for the types of projects summarized in bond measure #34-278 ("Criteria") for the period July 1, 2021 through June 30, 2022 (the "Assertion"). We confirm, to the best of our knowledge and belief, the following representations made to you during your engagement:

1. We acknowledge our responsibility for the Assertion; selecting the Criteria; and determining that such Criteria are suitable, will be available to the intended users, and are appropriate for the purpose of the engagement.
2. We believe the Subject Matter is presented in accordance with the Criteria.
3. All relevant matters are reflected in the evaluation of the Assertion.
4. All known matters contradicting the assertion and any communication from regulatory agencies or others affecting the assertion have been disclosed to you, including communications received between the end of the period addressed in the written assertion and the date of this letter.
5. We have disclosed to you:
 - a. all deficiencies in internal control relevant to the engagement of which we are aware;
 - b. our knowledge of any actual, suspected, or alleged fraud or noncompliance with laws or regulations affecting the Subject Matter.
6. Any known events subsequent to the date of the Assertion that would have a material effect on the Assertion have been disclosed to you.
7. We have provided you with all relevant information and access, as agreed upon in the terms of the engagement.
8. We have responded fully to all inquiries made to us by you during the examination.
9. All bond expenditure transactions have been properly recorded in the accounting records and were provided to you without adjustment.
10. For those employees that have been paid from bond proceeds, we evaluated the duties performed and believe they comply with the District's time study performed as well as the types of projects summarized in bond measure #34-278.
11. For all substitute teachers that were funded from bond proceeds, we have evaluated the duties performed by the teacher for whom the substitute replaced and verified the duties performed were in accordance with the types of projects summarized in bond measure #34-278.
12. We have provided you with:
 - a. Access to all information, of which we are aware that is relevant to the examination of our assertion such as records, documentation and other matters;
 - b. Additional information that you have requested from us for the purpose of the examination;

- c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain evidence.

DocuSigned by:

Adam Stewart

Adam Stewart, Capital Projects Officer

DocuSigned by:

Jeff Jones

Jeff Jones, Manager of Business Services

Report of Independent Accountants

The Board of Directors
Hillsboro School District 1J

We have examined management of Hillsboro School District 1J's (the District's) assertion that its bond proceeds were expended for the types of projects summarized in bond measure #34-278 for the period July 1, 2021 through June 30, 2022. The District's management is responsible for its assertion. Our responsibility is to express an opinion on management's assertion based on our examination.

Our examination was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether management's assertion is fairly stated, in all material respects. An examination involves performing procedures to obtain evidence about management's assertion. The nature, timing and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of management's assertion, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

We are required to be independent and to meet our other ethical responsibilities in accordance with relevant ethical requirements relating to the engagement.

In our opinion, management's assertion that its bond proceeds were expended for types of projects summarized in bond measure #34-278 for the period July 1, 2021 through June 30, 2022 is fairly stated in all material respects.



Portland, Oregon
November 18, 2022

Auditor Recommendations



Recommendation

To the Board of Directors
Hillsboro School District 1J

We did not note anything during our procedures regarding recommendations.

Very truly yours,

Ashley Osten, Partner, for
Moss Adams LLP

HILLSBORO SCHOOL DISTRICT 1J
July 31, 2017
APPROVAL OF ELECTION RESOLUTION AND NOTICE OF MEASURE ELECTION,
INCLUDING THE CAPTION, QUESTION, AND SUMMARY,
FOR THE NOVEMBER 2017 BOND ELECTION

SITUATION

In order to place the \$408 million bond package on the November 2017 ballot, the School Board must approve an election resolution and a notice of measure election, which includes the ballot caption, question, and summary. These documents must then be filed with the county elections office, no later than September 7. District staff and representatives of the District's bond counsel, bond underwriter, and communications consultant have worked together to ensure that the attached document provides accurate, descriptive information that meets the Secretary of State's criteria. The Board of Directors is being asked to approve these items during the July 31 work session because this is the Board's last meeting prior to the filing deadline for the November 2017 ballot.

RECOMMENDATION

The Superintendent recommends that the Board of Directors approve the election resolution and notice of measure election, including the caption, question, and summary, for the November 2017 bond election.

RESOLUTION

A RESOLUTION OF HILLSBORO SCHOOL DISTRICT NO. 1J, WASHINGTON, YAMHILL AND MULTNOMAH COUNTIES, OREGON, CALLING A MEASURE ELECTION TO SUBMIT TO THE ELECTORS OF THE DISTRICT THE QUESTION OF CONTRACTING GENERAL OBLIGATION BONDED INDEBTEDNESS IN AN AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED \$408,000,000 TO FINANCE CAPITAL COSTS; AND RELATED MATTERS.

WHEREAS the Board of Directors (the “Board”) of Hillsboro School District No. 1J, Washington, Yamhill and Multnomah Counties, Oregon, (the “District”) has determined that a need exists for the District to finance capital costs, as more fully described in the notice of measure election attached hereto as Exhibit A (the “Project”), and pay bond issuance costs; and

WHEREAS, in connection with the Project, the District has evaluated the need for safety improvements, the joint funding of safety improvements with other public and private entities, and the funding of safety improvements, in accordance with ORS 332.176; and

WHEREAS the District applied for the Oregon School Capital Improvement Match (the “Match Program”) under Senate Bill 447; and

WHEREAS the costs of the Project and issuance costs are estimated to be not more than \$408,000,000 from bond funds; and

WHEREAS the District anticipates incurring expenditures (the “Expenditures”) to finance the costs of the Project and wishes to declare its official intent to reimburse itself for any Expenditures it may make from its general funds on the Project from the proceeds of voter-approved general obligation bonds which may be issued as tax-exempt obligations or qualified tax credit bonds; and

WHEREAS ORS 328.205, as amended, subject to voter approval, authorizes the District to contract bonded indebtedness to provide funds to finance the costs of the Project and to pay bond issuance costs;

NOW, THEREFORE, the Board of Directors of Hillsboro School District No. 1J, Washington, Yamhill and Multnomah Counties, Oregon, resolves as follows:

1. The measure election is hereby called for the purpose of submitting to the electors of the District the question of contracting general obligation bonded indebtedness in the name of the District in an amount not to exceed \$408,000,000 (the “Bonds”). Bond proceeds will be used to finance the Project and pay all Bond issuance costs. The Bonds shall mature over a period of not more than twenty-one (21) years from the date of issue and may be issued in one or more series.
2. The measure election hereby called shall be held in the District on the 7th day of November, 2017. As authorized by the County Clerks of Washington, Yamhill and Multnomah Counties, Oregon, and the Oregon Secretary of State, the election shall be conducted by mail, pursuant to ORS 254.465 and 254.470.

3. The District authorizes the Chair, Superintendent, Chief Financial Officer (each an “Authorized Representative”) or his/her designee to submit the final ballot title and explanatory statement and to take such further action as is necessary to carry out the intent and purposes herein, in compliance with the applicable provisions of law.
4. The Authorized Representative shall cause to be delivered to the Election Officer of Washington County, Oregon (the “Election Officer”), a Notice of Measure Election (the “Notice”) in substantially the form attached hereto as Exhibit A, which shall be approved and filed by the Authorized Representative of the District, not later than September 7, 2017 (sixty-one (61) days prior to the election date), and with such changes as may be necessitated in connection with the Match Program.
5. The District hereby declares its official intent, pursuant to Treasury Regulation Section 1.150-2, to reimburse itself with the proceeds of the Bonds for any of the Expenditures incurred by it prior to the issuance of the Bonds.
6. The Authorized Representative is hereby authorized to execute all documents necessary in conjunction with the Match Program.
7. The law firm of Hawkins Delafield & Wood LLP is hereby appointed to serve as Bond Counsel with respect to the issuance of the Bonds. The District will pay the fees and expenses of the Bond Counsel from the Bond proceeds.

ADOPTED by the Board of Directors of Hillsboro School District No. 1J, Washington, Yamhill and Multnomah Counties, Oregon, this 31st day of July, 2017.

**HILLSBORO SCHOOL DISTRICT NO. 1J,
WASHINGTON, YAMHILL AND
MULTNOMAH COUNTIES, OREGON**

By: _____
Lisa Allen, Chair, Board of Directors

ATTEST:

By: _____
Mike Scott, Superintendent/District Clerk

EXHIBIT A

NOTICE OF MEASURE ELECTION

HILLSBORO SCHOOL DISTRICT NO. 1J WASHINGTON, YAMHILL AND MULTNOMAH COUNTIES, OREGON

NOTICE IS HEREBY GIVEN [_____] (*insert date submitted to county clerk, not adoption date*) that a measure election will be held in Hillsboro School District No. 1J, located in Washington, Yamhill and Multnomah Counties, Oregon, on November 7, 2017. The following shall be the ballot title of the measure to be submitted to the district's voters:

CAPTION (10 WORD LIMIT):

Bonds to Improve Schools and Classrooms, Address Safety, Repairs, Overcrowding

QUESTION (20 WORD LIMIT):

Shall Hillsboro School District improve schools, safety, security, and technology; issue \$408 million in bonds; estimated to maintain tax rate?

If the bonds are approved, they will be payable from taxes on property or property ownership that are not subject to the limits of sections 11 and 11b, Article XI of the Oregon Constitution.

SUMMARY (175 WORD LIMIT):

If approved, bonds are expected to fund projects to upgrade safety, repair aging schools, improve learning environments, relieve school crowding, and plan for growth.

The District has been awarded \$6 million in state matching funds if measure is approved. Independent audits and citizen oversight required.

Bonds expected to fund:

Safety Improvements

- Seismic, safety, security upgrades.

Repairs, Replacements, Address Overcrowding

- Mechanical/electrical/plumbing/hardscape/roofing upgrades;
- Replacement of Brookwood Elementary;

- Improvements to Reedville Elementary / Hillsboro High School;
- New elementary gymnasiums;
- Drop-off safety improvements;
- Playground, athletic field and other improvements.

Plan for Future Growth

- Two elementary schools;
- Transportation/Maintenance facility.

Learning Environments

- Classroom and technology upgrades;
- Job training infrastructure, equipment.

Bond issuance costs.

State matching and remaining funds may be used to:

- Purchase land for additional school capacity;
- Replace additional hardscapes, portables;
- Replace windows;
- Improve/replace tennis courts.

Bonds would mature in not-to-exceed 21 years from issuance. The estimated tax rate is not projected to increase over current levels of \$2.24 per \$1,000 of assessed property value. Actual levy rate may differ due to changes in interest rates and/or assessed value.

The following authorized District official hereby certifies the above ballot title is true and complete.

Signature of authorized District official

Date signed

Printed name of authorized District official

Title

Internal Controls and Procedures

Capital Projects Bonds System Description

PERSONNEL INVOLVED:

Superintendent: Mike Scott

Chief Financial Officer (CFO): Michelle Morrison

Capital Projects Officer (CPO): Adam Stewart

Manager of Business Services: Jeff Jones

Finance Manager – Accounting and Purchasing: Jennifer Zavatsky

Fiscal Planning Specialist: Christy Woodard

Accounts Payable Department:

Financial Assistant II: Denise Hess

Financial Assistant I: Britney Alley

Financial Assistant I: Connie Cannon

General Accountant: Pam Gray

DESCRIPTION:

The general public within the Hillsboro School District vote to approve a bond sale for capital projects. The ballot title describes allowable expenditures from bond sale proceeds, premium, and interest earned. All bond program activities will be coordinated by the Capital Project Officer and transactions will align with normal district controls described in the Procedures and authorized by the Chief Financial Officer.

Cash Flow and Banking

Cash flows and banking are subject to the standard Procedures for access and reconciliation with an additional layer of oversight by the Capital Project Officer. Requests for payment/transfer are initiated electronically and follow the standard banking workflow. The interest generated from investments (Zions bank) will settle in the appropriate US Bank Bond Checking account per the pre-determined investment schedule and guided by the bond investment policy.

Expenditure Authorization

All bond-related expenditures are subject to the standard internal controls for similar transactions, with additional oversight of the Capital Project Officer. A separate chart of accounts is maintained with each bond sale for internal tracking purposes of expenditures. Invoices for bond project expenditures will not be authorized for payment without a specific stamp of approval from the Capital Project Officer or designee.

External bank accounts will be maintained specifically for Bond funds and interfund/banking transactions will be pre-authorized by the Capital Project Officer. Staff positions funded by the bond will be temporary for the duration of the program.

Insurance

The District will obtain an Owner Controlled Insurance Program (OCIP) or “wrap-up program” using bond funds for construction projects. An OCIP, unlike traditional construction insurance coverage, provides eligible participants of a construction project with general liability coverage under one policy.



Code: **DFAA**
Adopted: 6/26/18
Revised/Readopted: 6/11/19; 9/22/20
Orig. Code: DFAA

Investment Policy – Capital Project Fund

Scope

This investment policy applies to activities of the Hillsboro School District with regard to investing the financial assets of the Capital Project Fund.

Funds will be invested in compliance with the provisions of Oregon Revised Statute (ORS) 294.035 through 294.048, ORS 294.125 through 294.155, ORS 294.810, and other applicable statutes. Investments will be in accordance with these policies and written administrative procedures. Investment of tax-exempt borrowing proceeds will comply with the “arbitrage” restrictions of Section 148 of the Internal Revenue Code of 1986.

Objectives

The District’s investment objectives are:

1. Preservation of capital and the protection of investment principal;
2. Conformance with federal, state, and other legal requirements;
3. Maintenance of sufficient liquidity to meet operating requirements.

Delegation of Authority

The Chief Financial Officer (CFO) is designated as the investment officer of the District and is responsible for investment decisions and activities, under the direction of the Superintendent.

Prudence

The standard of prudence to be used by the investment officer in the context of managing the overall portfolio shall be the prudent investor rule, which states: “Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.”

Investment Diversification

The CFO will diversify the portfolio to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions or maturities.

Percent of Diversification By Instrument	Maximum Portfolio
-------------------------------------------------	--------------------------

U.S. Treasury Obligations (Bills, notes and bonds)	100%
-------------------------------------------------------	------

U.S. Government Agency Securities and Instrumentalities of Government- Sponsored Corporations	100%
-----------------------------------------------------------------------------------------------------	------

Certificates of Deposit (CD) Commercial Banks	25%
--------------------------------------------------	-----

Certificates of Deposit (CD) Savings and Loan Associations	10%
---------------------------------------------------------------	-----

State of Oregon Investment Pool	100%
---------------------------------	------

Diversification by Financial Institutions

Certificates of Deposit (CD's) - Commercial Banks
No more than 15 percent of the total portfolio with any one financial institution.

Certificates of Deposit (CD's) - Savings and Loan Associations
Amount per institution based on capital adequacy guidelines; in any case not to exceed 10 percent of the total portfolio with any one institution.

State of Oregon Investment Pool - State Pool
With the exception of pass-through funds (in and out within 10 days), no more than the statutory limit per ORS 294.810 or 100 percent of the total portfolio.

Investment Maturity

Investment maturities for the Capital Project Fund shall be scheduled to coincide with projected cash flow needs. Investments which exceed 18 months shall be limited to U.S. Treasury Obligations and U.S. Government Agency Securities and Instrumentalities of Government Sponsored Corporations.

Qualified Institutions

The CFO shall maintain a list of all authorized dealers and financial institutions which are approved for investment purposes. Any firm is eligible to make an application to the investment officer and upon due consideration and approval will be added to the list. Additions or deletions to the list will be made at the director's discretion. At the request of the CFO the firms performing investment services for the District shall provide their most recent financial statements or Consolidated Report of Condition (call report) for review. At minimum, the CFO shall conduct an annual evaluation of each firm's credit worthiness to determine whether it should be on the authorized list. Securities dealers not affiliated with a bank shall be required to have an office located in Oregon or Washington.

Safekeeping and Collateralization

Investment securities purchased by the District will be delivered by either book entry or physical delivery, and held in third-party safekeeping by a bank designated as primary agent. The trust department of the bank designated as primary agent will be considered to be a third party for the purposes of safekeeping of securities purchased from that bank. The purchase and sale of securities will be on a payment versus delivery basis. The primary agent shall issue a safekeeping receipt to the District listing a specific instrument, rate, maturity, and other pertinent information.

Deposit-type securities (e.g., certificates of deposit or CD) shall be collateralized through the state collateral pool as required by ORS for any amount exceeding FDIC coverage, recognizing that ORS requires only 25 percent collateral. Other investments shall be collateralized by the actual security held in safekeeping by the primary agent.

Monitoring and Adjusting the Portfolio

The investment officer will routinely monitor the contents of the portfolio, the available markets and the relative values of competing instruments and will adjust the portfolio accordingly.

Internal Controls

The investment officer shall maintain a system of written internal controls, which shall be reviewed annually by the independent auditor. The controls shall be designed to prevent loss of public funds due to fraud, error, misrepresentation or imprudent actions.

Accounting Method

Investments will be carried at amortized cost. Gains or losses from investments will be credited or charged to investment income at the time of sale. Premiums or discounts on securities shall be amortized/accrued over the life of the securities. The District shall comply with Generally Accepted Accounting Principles (GAAP).

Reporting Requirements

The investment officer shall generate daily and monthly reports for management purposes. In addition, the Board will be provided quarterly reports which will include data on investment instruments being held, as well as any narrative necessary for clarification.

Review and Adoption

This policy shall be reviewed not less than annually, and shall expire if not readopted annually.

END OF POLICY

Legal Reference(s):

[ORS 294.135](#)

[ORS 332.107](#)

Bond Oversight Committee Information

Purpose

Over the five years of the Bond, the Citizens' Bond Oversight Committee (CBOC) will convene regularly, and as needed, to review progress on the projects detailed in the Hillsboro School District Bond Measure 34-278. CBOC will review program progress and will monitor program spending and schedules. A written report describing program progress will be prepared quarterly for the Board of Directors and published on the Hillsboro School District website. CBOC also will issue an annual report to the Board, including an overall assessment of the bond projects, schedules, spending trends, and cost projections.

Committee Members

The Citizens' Bond Oversight Committee comprises 10 adult community members and 2 student members. They were appointed to serve by the School Board on March 13, 2018.

- **Chair:** Matthew Buckingham, News Copy Editor, Willamette Week
- **Vice Chair:** Patrick Preston, Public Affairs Manager, City of Hillsboro
- Sonja Ackman, Research Program Manager, OHSU
- Maureen Barnhart, retired
- Peter Brandom, Senior Project Manager, City of Hillsboro
- Matthew Costigan, Senior Project Manager, Washington County
- William Caleb Ford, Assistant Finance Director, Metro
- Holly Robison, homemaker/storyteller
- Jeff Sarafa, Finance Director
- Mia Tognoli, student, Century High School
- Kevin Zuercher, Recreation Supervisor, City of Hillsboro

Citizens Bond Oversight Committee Charter

Authorization

The Hillsboro School District School Citizens Bond Oversight Committee shall be established as an advisory committee to the Board of Directors. All meetings of the Citizen Bond Oversight Committee will be open to the public. Agendas for meetings will be posted at least one week prior to the meeting date and minutes will be available via the Hillsboro School District website.

Purpose and Authority

The purpose and authority of the Oversight Committee is to convene quarterly or as needed to review progress on the projects detailed in the Hillsboro School District Bond Measure 34-278. The Committee will review program progress and will monitor program spending and schedules. A written report describing program progress will be prepared following each Committee meeting. This written report will be shared with the Board of Directors and will be published on the Hillsboro School District website.

Estimated Time to carry out oversight

The oversight committee will have its initial meeting not later than April 6, 2018 and will be dissolved on January 1, 2022, or upon issuance of a final report by the Committee after all projects authorized by the Hillsboro School District Bond Measure 34-278 have been completed, whichever is earlier. Meetings shall be held at a time and location to be determined by the Committee Chair.

Membership

The Oversight Committee shall be composed of not more than 15 at large community members and up to 4 high school students. The District will accept applications for membership beginning January 2, 2018 through February 16, 2018. Members shall be appointed by the Hillsboro School District Board at their March 13, 2018 Regular Board Meeting. The District's Capital Projects Officer and Chief Financial Officer shall serve as ex officio members.

Chair and Vice Chair

The Hillsboro School District Board shall designate one member to serve as Chair and one member to serve as Vice Chair of the Oversight Committee. The Chair shall preside over committee meetings and act as spokesperson for the committee.

Annual Report

The Oversight Committee shall prepare and deliver regular meeting minutes as well as an annual report to the Board of Directors regarding program progress. The annual report shall include an overall assessment of the projects, schedules, spending trends and cost projections to ensure the purpose and promise of the Hillsboro School District Bond Measure 34-278 is fully realized.

Annual Reconciliation Review Bond Funded Positions

In 2017, Hillsboro School District voters authorized the district to sell \$408.0 million in tax-exempt bonds to fund capital improvements across the district. Allowable expenditures are defined in the Ballot Title (Appendix A).

Due to the broad nature of the ballot title descriptions, there are areas where bond projects and district operations align and may even overlap, specifically in the areas of maintenance and technology. In consultation with both Bond Counsel¹ and the district's independent audit firm, Grove, Mueller & Swank, P.C., an internal district standard has been created to determine whether or not payroll and other expenses may be allowable by the bond fund.

Counsel Guidance

Components for the “allowability” of bond expenditures include capitalization, duration, purpose, and alignment with ballot title.

1. The Oregon Constitution describes what “Capital costs” are eligible to be charged to a bond for school districts:
Section 5. “Capital costs” defined. As used in this Article, “capital costs” means cost of land and of other assets having a useful life of more than one year, including costs associated with acquisition, construction, improvement, remodeling, furnishing, equipping, maintenance, or repair. (Created through H.J.R. 13, 2009 and adopted by the people May 18, 2010)
2. GASB Codification regarding Capital Assets (see Appendix B):
18. Capital assets should be reported at historical cost. The cost of a capital asset should include capitalized interest and ancillary charges necessary to place the asset into its intended location and condition for use.
Ancillary charges include costs that are directly attributable to asset acquisition—such as freight and transportation charges, site preparation costs, and professional fees. Donated capital assets should be reported at their estimated fair value at the time of acquisition plus ancillary charges, if any.

Standard checklist for bond-eligible payroll expenses

Due to the broad scope of the ballot title, the standard below has been developed to determine whether or not payroll or other expenses may be charged to the bond fund. Ideally, this determination would be made in the planning phase (budget) and reviewed for percentage of eligible activity expenses, up to 100%.

¹ Hawkins, Delafield & Wood LLP (5/13/19)

Annual Reconciliation Review Bond Funded Positions

Capital (Bond Eligible)	Operational (Non-bond eligible)
C.1- Activities or services by staff are bond-related and temporary in nature <ul style="list-style-type: none"> • Wages • Associated payroll costs • Related services and supplies 	O.1- Activities or services by staff are permanent or ongoing in nature
C.2- Structural, materials, and real property- per Ballot Title	O.2- Consumable supplies
C.3- Equipment/technology- per Ballot Title <ul style="list-style-type: none"> • Planning and procurement of items • Installation costs • Initial training for use and development of training materials • Development of required systems of support designed to last the life of the asset 	O.3- Continued training for use
C.4- Insurance and legal services for bond related activities	O.4- Periodic reports (used for monitoring or operating systems or equipment)
C.5- Infrastructure, related systems- per Ballot Title	O.5- Normal maintenance or repair (not included in Ballot Title)
C.6- Test: What percentage of this (item/cost) is related to bond activities?	O.6- Test: What percentage of this (item/cost) is related to regular operations?

Annual Reconciliation of Bond Positions

Below is the annual review for all bond funded positions to reconcile the estimated payroll expense against actual activities. This documentation will be used for year-end reclassification of FTE payroll and associated expenses.

Other supplemental and extra duty expenses are authorized by the Capital Projects Officer on an “as needed” basis. Extra help is occasionally needed due to bond work. To date this extra help has been used for clerical help with the badging of contractors, moving of furniture, locking and unlocking school sites during the summer and other miscellaneous work.

Annual Reconciliation Review Bond Funded Positions

Name	Position	Budget	Verification Date	Actual	FTE Change
Adam Stewart-113	Capital Project Officer	100%	9/22/2022	100%	1.0 -1.0 = 0.0
Sharon McCarty-112	Construction Mgmt Admin Support	100%	9/22/2022	100%	1.0 -1.0 = 0.0
Jim Peterson (retired January 2022)	Director of Capital Projects	100%	9/22/2022	100%	1.0 -1.0 = 0.0
Jordan Beveridge-113	Information Officer	30%	10/3/2022	10%	0.3-0.1 = - 0.2
Casey Waletich-113	Operations Officer	20%	9/27/2022	40%	0.2 - 0.2 = 0.0
Jane Siguenza-114	Bond Marketing Specialist	100%	9/22/2022	100%	1.0 -1.0 = 0.0
Britney Alley-112	Financial Asst 1	50%	9/29/2022	75%	.5-.5 = 0.0
Alano Ciliberto-113 (Worksheet)	Coordinator Bond Tech Integration	100%	9/22/2022	75%	0.75 - 0.75 = 0.0
Fred Kuest-114	Public Safety Systems Specialist	100%	9/26/2022	100%	1.0 -1.0 = 0.00

Annual Reconciliation of Other Expenses

Other temporary staffing expenses are authorized by the Capital Projects Officer on an “as needed” basis. Extra help is occasionally needed for clerical help with the badging of contractors, moving of furniture, locking and unlocking school sites during the summer and other miscellaneous work. A former HSD administrator is engaged to assist with communication between buildings undergoing construction and construction management office.

HILLSBORO SCHOOL DISTRICT 1J
2021-22 REVENUE AND EXPENSES

	<u>Total</u>						
REVENUES:							
Revenue from local sources:							
1500 Earning on investments	160,852						
1960 Recovery of prior year	181,055						
Total revenue from local sources	<u>341,907</u>						
Revenue from other sources:							
5300 Sale or compensation for loss of capital assets	5,493						
5400 Resources - beginning fund balance	108,660,689						
Total revenue from other sources	<u>108,666,182</u>						
TOTAL REVENUES	<u><u>\$ 109,008,089</u></u>						
	<u>Salaries</u>	<u>Associated Payroll Costs</u>	<u>Purchased Services</u>	<u>Supplies & Materials</u>	<u>Capital Outlay</u>	<u>Other</u>	<u>Total</u>
	Object 100	Object 200	Object 300	Object 400	Object 500	Object 600	
EXPENDITURES:							
Support services							
2660 Technology	\$ 4,792	\$ 2,691	\$ -	\$ -	\$ -	\$ -	\$ 7,483
Total support services	<u>4,792</u>	<u>2,691</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,483</u>
Facilities acquisition & construction							
4150 Building acquisition, construction, & improvement services	682,399	342,127	6,441,588	2,007,914	41,956,075	1,690,685	53,120,788
4180 Other Capital Purchases	-	-	249,670	1,232,825	1,409,060	656	2,892,211
Total facilities acquisition & construction	<u>682,399</u>	<u>342,127</u>	<u>6,691,258</u>	<u>3,240,739</u>	<u>43,365,135</u>	<u>1,691,341</u>	<u>56,012,999</u>
TOTAL EXPENDITURES	<u><u>\$ 687,191</u></u>	<u><u>\$ 344,818</u></u>	<u><u>\$ 6,691,258</u></u>	<u><u>\$ 3,240,739</u></u>	<u><u>\$ 43,365,135</u></u>	<u><u>\$ 1,691,341</u></u>	<u><u>\$ 56,020,482</u></u>