

**HILLSBOROUGH CITY
SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2012

HILLSBOROUGH CITY SCHOOL DISTRICT

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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Hillsborough City School District
Hillsborough, California

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, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. We have also audited the financial statements of Hillsborough Recreation, a discrete component unit of the District as of and for the year ended June 30, 2012. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Hillsborough Schools Foundation, a discrete component unit. Those financial statements were audited by other auditors whose report dated November 20, 2012 expressed unqualified opinion on those financial statements.

We conducted our audit 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 *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2011-2012*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to previously 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 Hillsborough City School District and Hillsborough Recreation, a discrete component unit, as of June 30, 2012, and the respective changes in financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2012, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as management's discussion and analysis and budgetary comparison 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements. The accompanying supplementary information, such as Schedule of Expenditures of Federal Awards, as required by Office of Management and Budget *Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations* (Circular A-133) is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

Vawrinck Trime Day + Co. LLP

Palo Alto, California
December 14, 2012

HILLSBOROUGH CITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

This section of the Hillsborough City School District's 2011-2012 annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2012. Please read it in conjunction with the District's financial statements, which immediately follow this section.

PROFILE OF THE DISTRICT

The Hillsborough City School District was founded to provide quality education to the residents of the Town of Hillsborough. Though the town's first students numbered only six in 1911, they were the beginning of an uninterrupted tradition of high quality public education in our community.

The District is committed to perpetuating that excellence through careful planning for future years, which is the cornerstone of district policy and practice. This philosophy is further articulated in the District's mission statement: The Hillsborough City School District shall work in partnership with students, parents, and other community members to educate the whole child in a nurturing environment and empower each student to become a contributing member and a responsible participant in our changing world.

The District is located in the suburban community of Hillsborough on the San Francisco Peninsula and encompasses 6.3 square miles. The residents are primarily professional and business executives. An increasing number of families have both parents working outside of the home. The value of education is evidenced by strong parental involvement and participation in the school community.

As of the October 2011 California Basic Educational Data System (CBEDS) count, the student population was 982 in grades K-5 and 543 in grades 6-8, for a total of 1,525. Students are housed in four schools: North, South, and West Elementary Schools and William H. Crocker Middle School. Of the student population, 28.1% were Asian, 2.9% Hispanic, 0.1% Pacific Islander, 0.1% African-American, 0.2% American Indian or Alaska Native, 65.5% White, and 3.1% had multiple designations.

District studies of Hillsborough graduates indicate that virtually 100% of the students graduate from high school and are expected to graduate from college. There is no drop-out problem in the District.

Over the years, all Hillsborough Schools have been cited numerous times as California Distinguished Schools. Most recently, Crocker Middle School received recognition in 2011, North School in 2010, and South and West Schools in 2008. South, West, and Crocker Schools also received recognition as National Blue Ribbon Schools; Crocker School received this award four times. Crocker School was honored by the White House as one of the best middle schools in the nation in 1983, 1989, 1995, and 2004. Additionally, Crocker School was cited by the Swedish Royal Academy of Engineering Sciences as one of the best schools in the world and received acknowledgment as such at a ceremony in Stockholm. In 2001, West School was the recipient of the "Golden Ruler" Award given by the International Center for Character Education, and the following year was designated as a National School of Character by the national Character Education Partnership. Both teachers and administrators in the school district have been recognized by the county, state, nation, and internationally for excellence in education. They have aggressively sought funding for their ideas through a variety of sources including a mini-grant program established by the Hillsborough Schools Foundation, an AB1470 Technology Grant, a California Educational Initiatives Fund Grant, an SB1274 Restructuring Grant, a Goals 2000 Grant, and a grant through the Bay Area Schools Reform Collaborative (BASRC).

HILLSBOROUGH CITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

California's accountability system measures the performance and progress of schools based on results of statewide tests given at grades two through twelve. The Accountability Progress Report measures growth in the Academic Performance Index (API) scores from one year to the next. The information forming the basis for calculating the API comes from results using the California Standards Tests (CSTs), the California Modified Assessment (CMA), the California Alternate Performance Assessment (CAPA), and the California High School Exit Examination (CAHSEE). These tests are aligned to state adopted standards which describe the knowledge and skills that students should master at each grade level. The API is calculated by converting a student's performance on these statewide assessments across multiple content areas into points on the API scale. These points are then averaged across all students and all tests. In a scale ranging from a low of 200 to a high of 1000 with a desired State target of 800, all four schools scored well above the target for the Spring 2012 testing (between 958 and 989). The District's API was 972, highest in the State of California. The Progress Report also reports on the federal accountability requirements known as Annual Yearly Progress (AYP). To successfully meet AYP, criteria in participation, percent proficient, and API progress must be met. All four schools met the AYP criteria.

On November 5, 2002, Hillsborough voters passed a Proposition 39 measure with a 65.6% majority, well over the required 55%. Measure B is a \$66.8 million school bond to finance renovation and new construction projects on all four school campuses. To date, the District has modernized, renovated, newly constructed and equipped housing to meet the instructional needs of the students, provide additional educational programs, and meet other needs. Funds were used to upgrade fire, life, safety and accessibility standards. The District has been involved in a multi-year, multi-phased implementation of a Master Plan that will come to a close in the 2012-13 school year.

In April 2003, the District authorized the issuance of Series 2003 A Bonds in the amount of \$13,500,000. The District received an AAA credit rating from Fitch Ratings and an AA+ credit rating from Standard and Poor's Ratings Services. These ratings aided in the excellent results of the bond sale. The bond premium more than offset expenses associated with the sale and the balance was used towards the first debt service payment. In August 2006, the District issued Series B Bonds in the amount of \$28,501,422. This time, the District received a credit rating of AAA from both Fitch Ratings and Standard and Poor's. The bond premium was used to cover all issuance costs and added close to \$485,000 to the Debt Service Fund.

To avoid escalating construction costs over time, the District accelerated the construction timeline of four new buildings, one at each school beginning Summer 2008. The District's assessed valuation of secured property was not high enough to sell the remainder of the \$66.8 million bonds to fund this construction. The District decided to issue 5-year bond anticipation notes (BANs) to go forward with the construction projects and planned to sell the remaining bond authorization no later than 2013 to pay off the BANs. Although the District would pay interest on the BANs, this cost was anticipated to be less than the increase in construction costs had we waited for assessed valuation to grow to issue more bonds. The BANs were sold in August 2008 and netted the District \$20,558,960.

In January 2011, the District issued Series C Bonds in the amount of \$22,680,012 for the purpose of retiring the 2008 BANs. The 2008 BANs were subject to redemption prior to their stated maturity date, at the option of the District, on any date on or after September 1, 2011. The District redeemed the BANs on September 1, 2011. As a result of a miscalculated underwriter's discount, an additional \$207,345 of proceeds became available to the District to use for additional building projects.

In May 2012, the District issued 2012 General Obligation Refunding Bonds in the amount of \$8,850,000. These bonds will be used on September 1, 2012, to redeem a \$9,130,000 of outstanding Series 2003 A Bonds in order to realize debt service savings to the taxpayers of Hillsborough. The advance refunding will result in an economic gain (difference between the present values of the old and new debt service payments) of \$1,685,416.

HILLSBOROUGH CITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

In September 2000, the District applied for State School Facilities funds to modernize and become compliant with the requirements of the Americans with Disabilities Act for North, South and Crocker Schools. Although District plans were approved by the State, funding was not available until Proposition 47 was passed by State voters. The District finally received these funds in June 2004 in the amount of \$2,765,611. The modernization projects as approved by the State took place during Summer 2004.

FINANCIAL HIGHLIGHTS

A school district is Basic Aid when the assessed valuation of the district increases to the point where the local property taxes exceed the State's calculated revenue limit for the district. Hillsborough became Basic Aid in 1990. Property taxes are based on assessed valuations and vary from year to year due to home sales, change in the California Consumer Price Index (CPI), reassessments, and new construction. In 2011-2012, the District had almost no growth in assessed valuation for the second year in a row due to a decreased number of changes in ownership and downward property value reassessments. The prior year experienced for the first time, a negative California CPI, a factor used to determine change in base property values. The District received \$12,839,960 in local property taxes, \$5,302,313 over total deficit revenue limit. This money is the primary funding source for all instructional programs and operating costs of the District. Because funding relies on assessed valuation, the impact of a recessionary period may have a negative effect upon local property tax revenues. Therefore, we must use caution and err on the conservative side when making long-term commitments with our funds.

Being Basic Aid is a desirable status. However, if the State Legislature or the Courts take action that would result in the elimination of Basic Aid, there would be a significant loss of income to our District. The possibility of the State attempting to recapture the Basic Aid excess must never be ignored, especially when the economy is in a downturn and the State is looking for funds.

Another significant source of funding for the District is through the fund raising efforts of the Hillsborough Schools Foundation (HSF). In 2011-2012, the District received \$3,216,050 in support of the programs offered to the children of Hillsborough. In addition to this generous local support, the District received \$1,825,697 from a parcel tax.

In 2009-10, the State Budget Act Revision contained a provision for a State take back of funds from school districts. A one-time reduction of \$252.99/ADA was taken from the District, amounting to \$361,385. Fortunately, funding received through the Federal stimulus program offset this reduction by \$306,201. The State, still struggling with its on-going fiscal crisis, and in fairness to the revenue limit districts, assessed "fair share" reductions against basic aid districts, but applied the reductions in funding during the following school year. In 2010-11, State funding was reduced by 5.81% of the 2009-10 Second Principal Apportionment (P2) total base revenue limit subject to deficit. This amounted to \$515,422 for the District. Funding through the Federal stimulus program and the Federal Education Jobs Act offset this reduction by \$160,051. In 2011-12, with no economic improvement in sight, the State increased the basic aid "fair share" recapture to 8.92% of the 2010-11 P2 total base revenue limit subject to deficit. This amounted to \$794,109 for the District. Federal Education Jobs Act funds of \$165,282 offset this reduction.

To mitigate the effects of no property tax revenue growth and the fair share take back by the State, the Board approved ongoing expenditure reductions of \$310,000 in 2010-11. With continued sluggish growth in assessed valuation and a greater "fair share" reduction by the State, the District made further ongoing expenditure reductions in 2011-12 of \$136,383, increased annual funding commitment by the Hillsborough Schools Foundation by \$140,000 to an annual \$3.14 million, and worked with stakeholders to make ongoing structural changes beginning 2012-13.

HILLSBOROUGH CITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are government-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the government-wide statements.
- The governmental funds statements tell how basic services like regular and special education were financed in the short-term as well as what remains for future spending.
- Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong. Fiduciary fund activity is excluded from the government-wide financial statements.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison to the District's general fund budget, both the adopted and final version, with year-end actuals.

Government-wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District one needs to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

HILLSBOROUGH CITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debt) or to show that it is properly using certain revenues (like federal grants).

The District has two kinds of funds:

- Governmental funds – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements that explains the relationship (or differences) between them.
- Fiduciary funds – The District is the trustee, or fiduciary, for assets that belong to others, such as the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the government-wide financial statements because the District cannot use these assets to finance its operations.

HILLSBOROUGH CITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets

The District's government-wide combined net assets were \$3,571,148 as of June 30, 2012. This was a decrease of 55.5% from the year before. This table summarizes and compares the District's net assets to the prior year.

Hillsborough City School District			
Net Assets			
(in thousands of dollars)			
	Total		Total Changes
	Government-Wide		
	2012	2011	
Current and other assets	\$ 8,449.9	\$ 10,165.2	\$ (1,715.3)
Capital assets	62,492.6	64,403.2	(1,910.6)
Total Assets	<u>70,942.5</u>	<u>74,568.4</u>	<u>(3,625.9)</u>
Current liabilities	1,039.1	1,627.0	(587.9)
Long-term debt	66,332.2	64,914.9	1,417.3
Total Liabilities	<u>67,371.3</u>	<u>66,541.9</u>	<u>829.4</u>
Net Assets			
Invested in capital assets, net of related debt	(2,672.7)	1,098.2	(3,770.9)
Restricted	1,428.2	3,020.2	(1,592.0)
Unrestricted	4,815.7	3,908.1	907.6
Total Net Assets	<u>\$ 3,571.2</u>	<u>\$ 8,026.5</u>	<u>\$ (4,455.3)</u>

HILLSBOROUGH CITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

Changes in Net Assets

The results of this year's operations for the District as a whole are reported in the Statement of Activities. Total expenses surpassed revenues, which resulted in a decrease in net assets in the amount of \$4,455,299. The table below summarizes and compares the changes in net assets to the prior year.

Hillsborough City School District			
Changes in Net Assets			
(in thousands of dollars)			
	Total		Total Changes
	Government-Wide		
	2012	2011	
Revenues			
Program revenues			
Charges for services	\$ 188.5	\$ 20.2	\$ 168.3
Operating grants & contributions	4,182.6	603.6	3,579.0
Property taxes	13,526.4	13,591.6	(65.2)
Other taxes	3,838.8	3,891.6	(52.8)
Other general revenues	1,416.1	5,377.1	(3,961.0)
Total Revenues	<u>23,152.4</u>	<u>23,484.1</u>	<u>(331.7)</u>
Expenses			
Instruction related	19,297.9	18,617.2	680.7
Student support services	777.1	749.3	27.8
Administration	1,636.4	1,747.8	(111.4)
Maintenance & operations	2,036.9	2,027.3	9.6
Other	3,859.4	3,802.4	57.0
Total Expenses	<u>27,607.7</u>	<u>26,944.0</u>	<u>663.7</u>
Change in Net Assets	<u>\$ (4,455.3)</u>	<u>\$ (3,459.9)</u>	<u>\$ (995.4)</u>

Expenses related to educating and caring for students accounted for 72.7% of total expenses, an increase of 3.7% over the prior year. Expenditure commitments consumed all revenues received as well as 55.5% of beginning net assets.

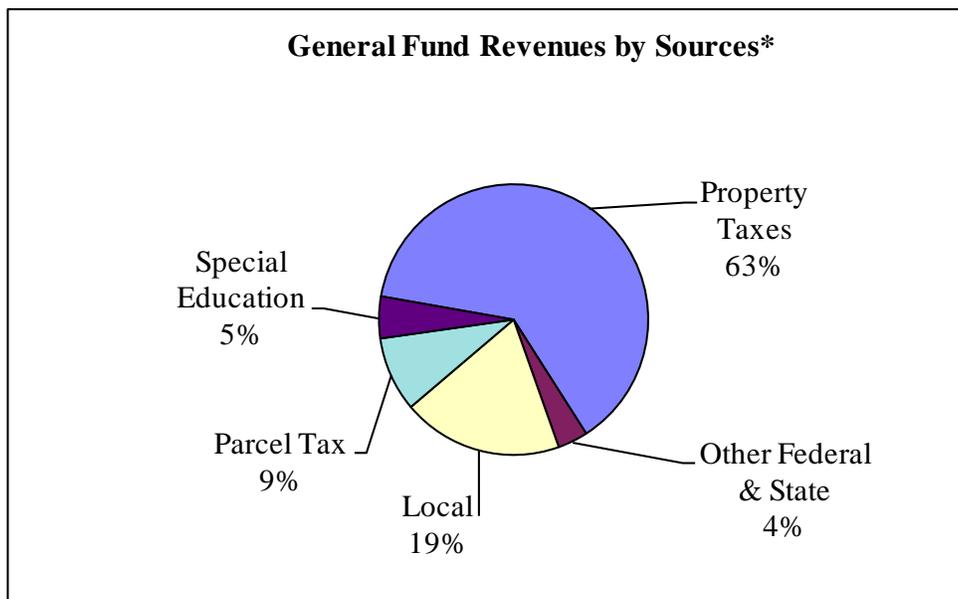
HILLSBOROUGH CITY SCHOOL DISTRICT

MANAGEMENT’S DISCUSSION AND ANALYSIS

JUNE 30, 2012

FINANCIAL ANALYSIS OF THE DISTRICT’S GENERAL FUND

The District is Basic Aid, which means that the District relies on local property taxes rather than State aid for revenue. Total revenues for 2011-2012 decreased 0.5% from the prior year to \$20,420,738 (not including on behalf payments of \$537,802 by the State to CalSTRS). Revenues decreased due to property taxes reduced by reassessments and refunds, loss of the prior year’s one-time only State apportionment for mandated costs, and a larger fair share reduction (increasing from 5.81% to 8.92% of deficated revenue limit) by the State. This decrease was partially offset by Federal Education Jobs Act funding and local Special Education reimbursements received from other districts to provide education to their students. Locally generated revenues amounted to 91% of the District’s total revenues.



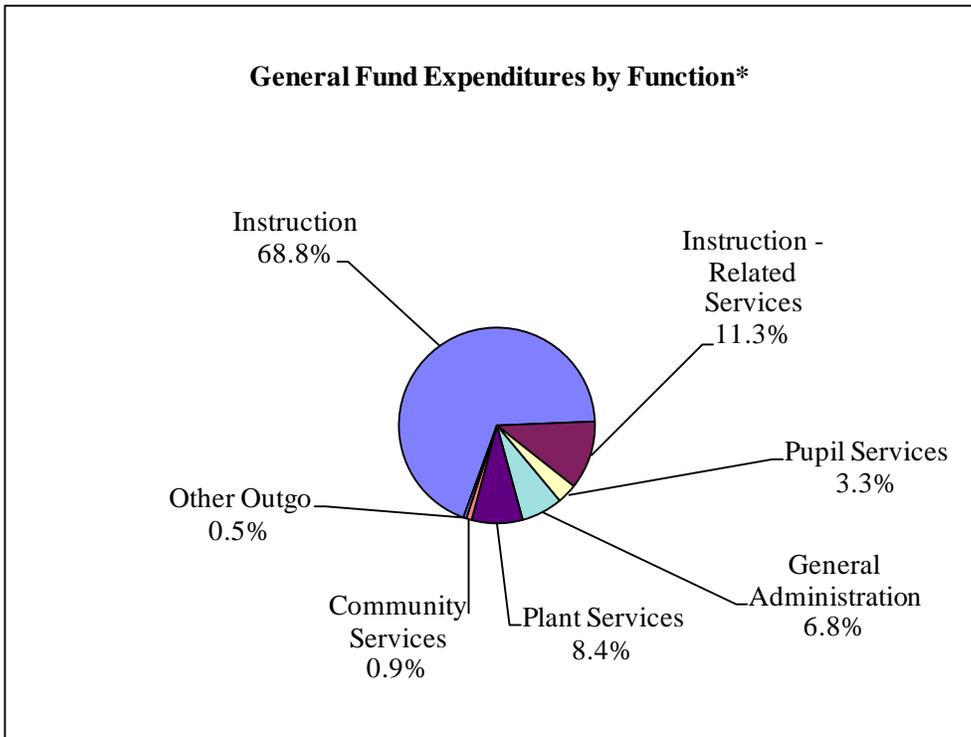
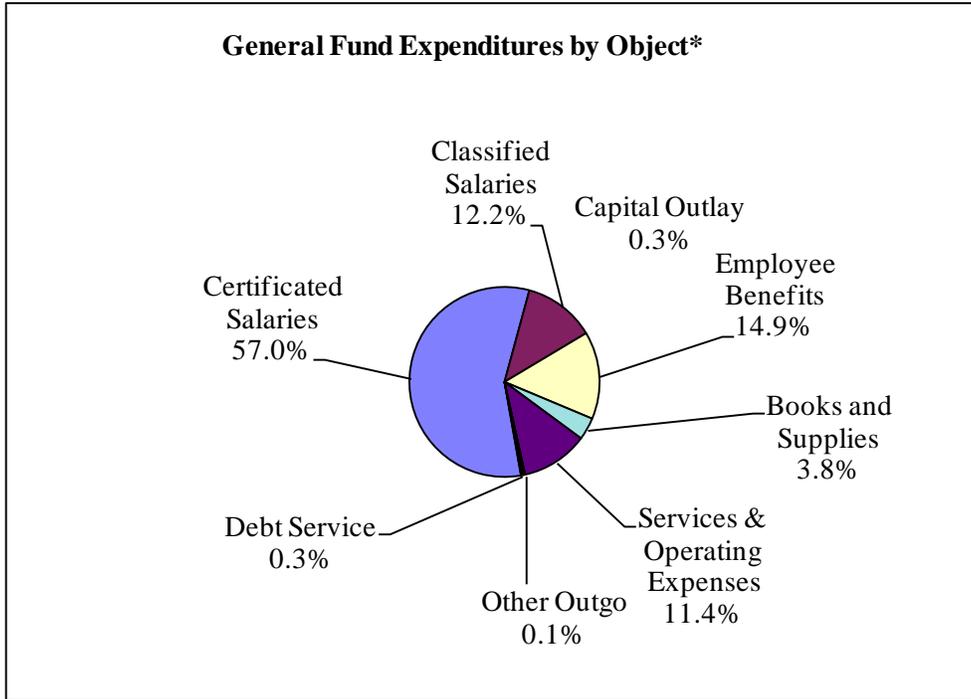
*Excluded from this chart, revenues related to the Special Reserve Fund for Other Than Capital Outlay.

Expenditures increased 1.5% 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 \$20,713,397 (not including on behalf payments of \$537,802 by the State to CalSTRS) expended during 2011-2012, 84.1% was spent on salaries and benefits. See the charts below for a breakdown of general fund expenditures, both by Object Code and by Function.

HILLSBOROUGH CITY SCHOOL DISTRICT

MANAGEMENT’S DISCUSSION AND ANALYSIS

JUNE 30, 2012



*Excluded from this chart, expenditures related to the Special Reserve Fund for Other Than Capital Outlay.

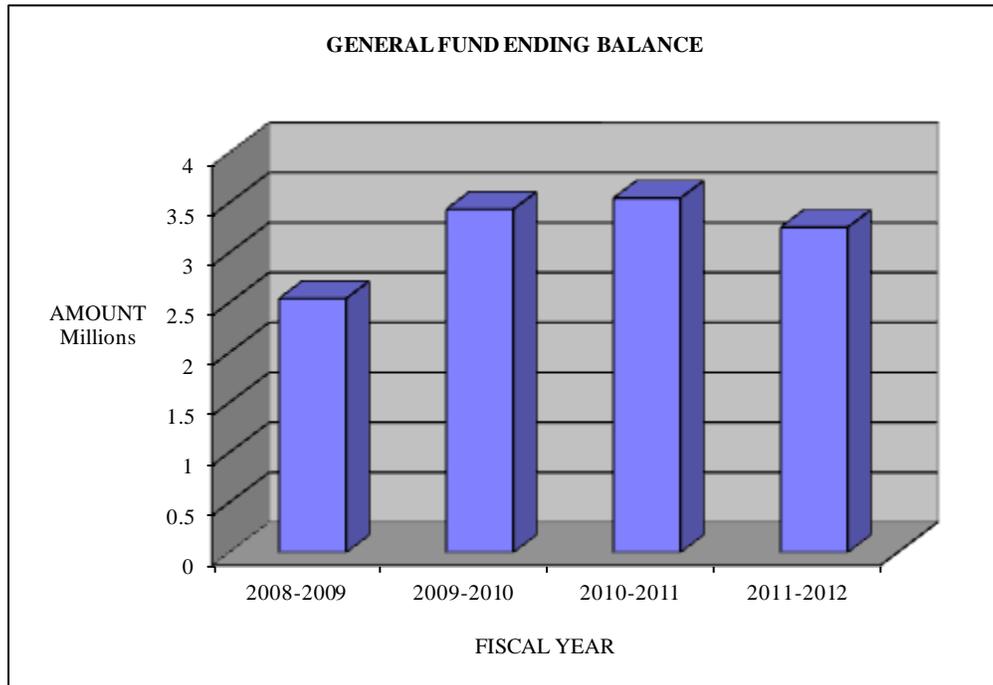
As seen in the chart above, the District spent 80.1% of total general fund expenditures on instruction and instruction-related activities.

HILLSBOROUGH CITY SCHOOL DISTRICT

MANAGEMENT’S DISCUSSION AND ANALYSIS

JUNE 30, 2012

Total expenditures exceeded total revenues in the General Fund, excluding the Special Reserve Fund for Other Than Capital Outlay, by \$292,660. This deficit reduced the ending fund balance of the current year to \$3,253,371. Of this amount, \$24,145 was nonspendable, \$13,961 was restricted; \$997,542 was assigned; and \$2,217,723 was unassigned. The District’s unassigned ending balance amounted to 10.7 % of total General Fund expenditures and other uses.



*Excluded fund balance of the Special Reserve Fund for Other Than Capital Outlay.

General Fund Budgetary Highlights

The Adopted Budget for the General Fund anticipated a decrease in the ending balance of \$684,359. The District ended the year with a decrease of only \$292,660. Due to the slump in growth of secured assessed valuation and the State’s fiscal uncertainties possibly threatening recapture of excess revenues from Basic Aid districts, revenue projections for the adopted budget were based on very conservative assumptions. Expenditures were budgeted high enough to insure that unforeseen expenses could also be covered. Actual revenues are reflected at interims when numbers become known, expenditures are adjusted to account for actual expenses that occur as the year progresses, as well as budgeting for any unforeseen expenses that might arise that are necessary to keep the schools operational.

HILLSBOROUGH CITY SCHOOL DISTRICT

MANAGEMENT’S DISCUSSION AND ANALYSIS JUNE 30, 2012

The Adopted Budget for 2012-13 projected growth in secured property taxes of 3.0%. The basic aid fair share reduction of 9.57% of the 2011-12 P2 total base revenue limit subject to deficit amounted to \$886,663. Total reductions by the State from 2009-10 through 2012-13 will amount to \$2,557,579. The amount recaptured by the State is limited to the lesser of the calculated reduction amounts or the amount of State funding over the \$120 per Average Daily Attendance minimum State funding guarantee. The remaining exposure of State funds to recapture is close to \$17,000. To meet the continuing revenue challenges of low property tax revenue growth and fair share reductions by the State, the District adopted an on-going \$596,000 expenditure reduction plan shared across the District while ensuring continued positive student achievement. Savings will be achieved by modest increases to class size caps, reductions in elementary specialist programs, and reduced frequency or elimination of various middle school electives and lunchtime activities. As part of the solution, conservative, planned use of the unappropriated ending balance over the next five years lowered the level of necessary reductions and lessened the impact on students. The District aims to continue a conservative budgeting philosophy.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Hillsborough City School District			
Capital Assets at Year-end			
(in thousands of dollars)			
	Total		Total Changes
	Government - wide 2012	2011	
Cost:			
Land	\$ 228.7	\$ 228.7	\$ -
Work in Progress	16.3	307.9	(291.6)
Improvement of Sites	1,690.7	1,524.6	166.1
Buildings	75,293.2	74,413.0	880.2
Equipment	2,000.2	1,930.7	69.5
	<u>79,229.1</u>	<u>78,404.9</u>	<u>824.2</u>
Accumulated Depreciation:			
Improvement of Sites	890.3	812.3	78.0
Buildings	14,412.9	12,079.4	2,333.5
Equipment	1,188.3	1,110.0	78.3
	<u>16,491.5</u>	<u>14,001.7</u>	<u>2,489.8</u>
Net Book Value:			
Land	228.7	228.7	-
Work in Progress	16.3	307.9	(291.6)
Improvement of Sites	800.4	712.3	88.1
Buildings	60,880.3	62,333.6	(1,453.3)
Equipment	811.9	820.7	(8.8)
	<u>\$ 62,737.6</u>	<u>\$ 64,403.2</u>	<u>\$ (1,665.6)</u>

HILLSBOROUGH CITY SCHOOL DISTRICT

MANAGEMENT’S DISCUSSION AND ANALYSIS JUNE 30, 2012

By year end, the District had invested \$79.2 million in a wide range of capital assets, including renovated and new school buildings; field, playground, and parking lot improvements; computer, classroom, and other operating equipment and furniture; and maintenance and grounds vehicles. The additional \$824,283 from the current year resulted from renovation of the old Lecture Hall to a new Science Lab classroom and paving rehabilitation at Crocker School, and the installation of a new portable classroom at West School. Summer 2012 saw the beginning of renovations to the Old Band Room and Gym at Crocker School. Completed portions of Work in Progress were reclassified to other categories. Net book value (the amount of total assets after applying depreciation) decreased \$1,665,588 from the prior year with higher depreciation write-offs than additions to capital assets.

Long-Term Debt

Hillsborough City School District			
Outstanding Long-Term Debt at Year-End			
(in thousands of dollars)			
	Total		Total Changes
	Government-Wide 2012	2011	
Long-Term Debt Outstanding:			
General Obligation Bonds	\$ 64,153.2	\$ 63,198.3	\$ 954.9
Cost of Defeasance	(106.7)	-	(106.7)
Bond Premium	1,335.0	951.1	383.9
Capitalized Leases	199.4	148.3	51.1
Accumulated Vacation	85.2	112.7	(27.5)
Sick Leave Bank	24.8	34.3	(9.5)
Other Postemployment Benefits	641.2	470.1	171.1
	<u>\$ 66,332.1</u>	<u>\$ 64,914.8</u>	<u>\$ 1,417.3</u>

At June 30, 2012, the District had \$65,381,601 in general obligation bonds and \$950,573 in other long-term debt outstanding. In May 2012, the District issued 2012 General Obligation Refunding Bonds in the amount of \$8,850,000 to redeem \$9,130,000 of outstanding Series 2003 A Bonds. Current year accretion of the Capital Appreciation Bonds amounted to \$2,259,952. The District has thirty years to recognize its Unfunded Actuarial Accrued Liability (UAAL) for Other Post Employment Benefits. This is the fourth year of the thirty. Total UAAL for the District is \$2,603,901.

HILLSBOROUGH CITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

FACTORS BEARING ON THE DISTRICT'S FUTURE

The State of California continues to suffer from a fiscal crisis necessitating deeper cuts to education. As a Basic Aid district, we must always be on guard to any hint of State action to claim property tax revenues over the revenue limit. As we experienced during the last fiscal crisis, 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, 19% 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, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any 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.

HILLSBOROUGH CITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS JUNE 30, 2012

	Governmental Activities	Discrete Component Units	
		Hillsborough Schools Foundation	Hillsborough Recreation
ASSETS			
Deposits and investments	\$ 7,138,710	\$ 9,645,004	\$ 1,771,115
Receivables	677,398	249,886	33,500
Prepaid expenses	19,145	12,773	15,933
Deferred charges	369,582	-	-
Capital assets not being depreciated	245,005	-	-
Capital assets being depreciated	78,984,169	30,147	56,518
Less: Accumulated depreciation	(16,491,550)	(24,958)	(18,376)
Total Assets	70,942,459	9,912,852	1,858,690
LIABILITIES			
Accounts payable	514,156	3,439,196	81,443
Interest payable	463,733	-	-
Deferred revenue	61,248	-	444,004
Current portion of long-term obligations	1,127,145	-	-
Noncurrent portion of long-term obligations	65,205,029	365,000	-
Total Liabilities	67,371,311	3,804,196	525,447
NET ASSETS			
Invested in capital assets, net of related debt	(2,672,726)	-	-
Restricted for:			
Debt service	1,032,308	-	-
Capital projects	10,412	-	-
Legally restricted	385,457	2,487,659	-
Unrestricted	4,815,697	3,620,997	1,333,243
Total Net Assets	\$ 3,571,148	\$ 6,108,656	\$ 1,333,243

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

HILLSBOROUGH CITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2012

Functions/Programs	Expenses	Program Revenues	
		Charges for Services and Sales	Operating Grants and Contributions
Governmental Activities:			
Instruction	\$ 16,645,651	\$ 126,206	\$ 1,971,449
Instruction-related activities:			
Supervision of instruction	947,288	13,283	35,969
Instructional library, media, and technology	361,302	-	2,064
School site administration	1,343,641	-	-
Pupil services:			
Home-to-school transportation	65,299	2,705	341
Food services	4,068	-	-
All other pupil services	707,699	1,494	30,553
General administration:			
Data processing	334,558	-	-
All other general administration	1,301,895	-	-
Plant services	2,036,863	-	1,505
Community services	209,225	-	-
Interest on long-term obligations	3,631,260	-	-
Other outgo	18,967	44,799	2,140,723
Total Governmental-Type Activities	\$ 27,607,716	\$ 188,487	\$ 4,182,604

General revenues and subventions:

- Property taxes, levied for general purposes
- Property taxes, levied for debt service
- Taxes levied for other specific purposes
- Federal and state aid not restricted to specific purposes
- Interest and investment earnings
- Miscellaneous

Subtotal, General

Change in Net Assets

- Net Assets - Beginning
- Net Assets - Ending

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

Net Revenues, Expenses and Changes in Net Assets		
Discrete Component Units		
Governmental Activities	Hillsborough Schools Foundation	Hillsborough Recreation
\$ (14,547,996)	\$ -	\$ -
(898,036)	-	-
(359,238)	-	-
(1,343,641)	-	-
(62,253)	-	-
(4,068)	-	-
(675,652)	-	-
(334,558)	-	-
(1,301,895)	(483,144)	(280,317)
(2,035,358)	-	-
(209,225)	-	-
(3,631,260)	-	-
2,166,555	(3,500,000)	(1,481,185)
<u>(23,236,625)</u>	<u>(3,983,144)</u>	<u>(1,761,502)</u>
13,526,496	-	-
2,013,069	-	-
1,825,697	-	-
462,393	-	-
92,441	-	8,354
861,230	4,133,569	1,918,775
<u>18,781,326</u>	<u>4,133,569</u>	<u>1,927,129</u>
(4,455,299)	150,425	165,627
8,026,447	5,958,231	1,167,616
<u>\$ 3,571,148</u>	<u>\$ 6,108,656</u>	<u>\$ 1,333,243</u>

HILLSBOROUGH CITY SCHOOL DISTRICT

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2012

	General Fund	Special Reserve Capital Outlay Fund	Bond Interest and Redemption Fund
ASSETS			
Deposits and investments	\$ 3,558,094	\$ 1,382,441	\$ 1,493,241
Receivables	666,338	3,117	2,800
Prepaid expenditures	19,145	-	-
Total Assets	\$ 4,243,577	\$ 1,385,558	\$ 1,496,041
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 480,331	\$ -	\$ -
Deferred revenue	2,915	58,333	-
Total Liabilities	483,246	58,333	-
Fund Balances:			
Nonspendable	24,145	-	-
Restricted	13,961	-	1,496,041
Committed	-	-	-
Assigned	997,542	1,327,225	-
Unassigned	2,724,683	-	-
Total Fund Balances	3,760,331	1,327,225	1,496,041
Total Liabilities and Fund Balances	\$ 4,243,577	\$ 1,385,558	\$ 1,496,041

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

Non Major Governmental Funds	Total Governmental Funds
\$ 704,934	\$ 7,138,710
5,143	677,398
-	19,145
<u>\$ 710,077</u>	<u>\$ 7,835,253</u>

\$ 33,825	\$ 514,156
-	61,248
<u>33,825</u>	<u>575,404</u>

-	24,145
183,009	1,693,011
493,243	493,243
-	2,324,767
-	2,724,683
<u>676,252</u>	<u>7,259,849</u>
<u>\$ 710,077</u>	<u>\$ 7,835,253</u>

HILLSBOROUGH CITY SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS JUNE 30, 2012

Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:

Total Fund Balance - Governmental Funds **\$ 7,259,849**

Capital assets used in governmental activities are not financial resources, and therefore, are not reported as assets in governmental funds.

The cost of capital assets is	\$ 79,229,174	
Accumulated depreciation is	<u>(16,491,550)</u>	
Net Capital Assets		62,737,624

In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is paid. In the government-wide statements, unmatured interest on long-term obligations is recognized as it accrues. (463,733)

Costs relating to issuance of debt are expensed in the governmental fund statements, but they are capitalized and amortized to operations in the government-wide statements. 369,582

Long-term liabilities at year end consist of:

Bonds payable	(65,381,601)	
Capital leases payable	(199,432)	
Compensated absences (vacations)	(109,934)	
Other post employment benefit obligation	<u>(641,207)</u>	
Total Long-Term Liabilities		<u>(66,332,174)</u>

Total Net Assets - Governmental Activities **\$ 3,571,148**

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

HILLSBOROUGH CITY SCHOOL DISTRICT

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE FOR THE YEAR ENDED JUNE 30, 2012

	General Fund	Special Reserve Capital Outlay Fund	Bond Interest and Redemption Fund
REVENUES			
Revenue limit sources	\$ 13,526,496	\$ -	\$ -
Federal sources	468,093	-	-
Other state sources	1,100,710	-	6,049
Other local sources	5,826,471	117,963	2,022,140
Total Revenues	20,921,770	117,963	2,028,189
EXPENDITURES			
Current			
Instruction	14,798,988	-	-
Instruction-related activities:			
Supervision of instruction	838,687	-	-
Instructional library, media and technology	319,881	-	-
School site administration	1,189,601	-	-
Pupil Services:			
Home-to-school transportation	57,813	-	-
Food services	-	-	-
All other pupil services	626,565	-	-
General administration:			
Data processing	296,203	-	-
All other general administration	1,102,410	-	-
Plant services	1,739,485	-	-
Facility acquisition and construction	-	-	-
Community services	185,239	-	-
Other outgo	18,967	-	-
Debt service:			
Principal	42,702	-	1,025,000
Interest and other	34,658	-	1,304,178
Total Expenditures	21,251,199	-	2,329,178
Excess (Deficiency) of Revenues Over Expenditures	(329,429)	117,963	(300,989)
Other Financing Sources (Uses):			
Transfers in	44,500	-	-
Other sources	-	-	-
Transfers out	-	(44,500)	-
Net Financing Sources (Uses)	44,500	(44,500)	-
NET CHANGE IN FUND BALANCES	(284,929)	73,463	(300,989)
Fund Balance - Beginning	4,045,260	1,253,762	1,797,030
Fund Balance - Ending	\$ 3,760,331	\$ 1,327,225	\$ 1,496,041

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

Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 13,526,496
-	468,093
-	1,106,759
103,749	8,070,323
<u>103,749</u>	<u>23,171,671</u>
-	14,798,988
-	838,687
-	319,881
-	1,189,601
-	57,813
3,601	3,601
-	626,565
-	296,203
-	1,102,410
5,077	1,744,562
926,441	926,441
-	185,239
-	18,967
-	1,067,702
-	1,338,836
<u>935,119</u>	<u>24,515,496</u>
<u>(831,370)</u>	<u>(1,343,825)</u>
44,000	88,500
6,612	6,612
<u>(44,000)</u>	<u>(88,500)</u>
<u>6,612</u>	<u>6,612</u>
(824,758)	(1,337,213)
1,501,010	8,597,062
<u>\$ 676,252</u>	<u>\$ 7,259,849</u>

HILLSBOROUGH CITY SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2012

Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:

Total Net Change in Fund Balances - Governmental Funds **\$ (1,337,213)**

This is the amount by which depreciation exceeds capital outlays in the period.

Depreciation expense	\$ (2,507,115)	
Capital outlays	<u>867,393</u>	
Net Expense Adjustment		(1,639,722)

Some of the capital assets acquired this year were financed with capital leases. The amount financed by the leases is reported in the governmental funds as a source of financing. On the other hand, the capital leases are long-term liabilities in the statement of net assets and the correlating equipment is capitalized and depreciated in the statement of activities.

(93,821)

The loss on the disposal of capital assets is recorded in the statement of activities, however in the governmental funds, only gross proceeds are recorded.

(25,866)

In the statement of activities, certain operating expenses, such as compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation used was more than the amounts earned by \$37,806.

37,086

Proceeds received from Sale of Refunding Bonds are a revenue source in the governmental funds, but it increases long-term liabilities in the statement of net assets and does not affect the statement of activities.

(8,850,000)

Payment of principal on capital leases is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.

42,702

Payment of principal on long-term liabilities is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.

10,155,000

Accreted interest is not an expenditure in the governmental funds, but it increased long-term liabilities in the statement of net assets and is reflected as additional interest expense in the statement of activities.

(2,259,952)

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

HILLSBOROUGH CITY SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2012

Amortization of the costs of issuance of bonds is an expenditure in the government-wide statements, but is not recorded on the governmental funds.	(183,394)
Amortization of bond premiums is recorded as a revenue source in the government-wide statement of activities, but is not recorded on the governmental funds.	340,720
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is paid, and thus 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 paid. The additional interest reported in the statement of activities is a result of this difference.	(5,481)
The net change in defeasance costs is recognized in the statement of net assets, but does not affect the governmental funds.	106,664
Premiums on new issuance and refunding bonds are recorded as revenue when received in governmental funds, but they are recorded as a liability in the statement of net assets and amortized to operations in the statement of activities.	(724,597)
Issuance costs on new issuance and refunding bonds are recorded as expenses when paid in governmental funds, but they are recorded as a deferred charges in the statement of net assets and amortized to operations in the statement of activities.	153,616
Payments of the retiree benefits are recorded as an expense in the governmental funds. However, the difference between the annual required contributions and the actual benefit payments made, if less, is recorded as an expense in the statement of activities. The actual amount of the contribution was less than the annual required contributions.	(171,041)
Change in Net Assets of Governmental Activities	<u><u>\$ (4,455,299)</u></u>

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

HILLSBOROUGH CITY SCHOOL DISTRICT

FIDUCIARY FUND STATEMENT OF NET ASSETS JUNE 30, 2012

	<u>Agency Funds</u>
ASSETS	
Deposits and investments	\$ 120,694
Total Assets	<u><u>\$ 120,694</u></u>
LIABILITIES	
Due to student groups	\$ 120,694
Total Liabilities	<u><u>\$ 120,694</u></u>

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

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Hillsborough City School District was organized on August 14, 1911 under the laws of the State of California. The District operates under a locally elected five-member Board form of government and provides educational services to grades kindergarten through eighth as mandated by the State and/or Federal agencies. The District operates three elementary schools and one middle school.

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For the Hillsborough City School District, this includes general operations, food service, and student related activities of the District.

Component Units

The Hillsborough Schools Foundation is a non-profit organization under IRS Code Section 501(c)(3) whose purpose is to raise funds for the Hillsborough City School District to supplement funding of programs offered. Hillsborough Recreation, created by a Joint Powers Agreement between the District and the Town of Hillsborough, provides recreational services to the Hillsborough community (preschool, adults, sports groups, etc.). Foundation and Recreation meet the requirements for inclusion as discretely presented component units of the District in accordance with the provisions of GASB Statement 39.

Joint Powers Agencies and Public Entity Risk Pools

The District is associated with one joint powers agency. This organization does not meet the criteria for inclusion as component units of the District. Additional information is presented in Note 12 to the financial statements. The organization is:

- San Mateo County Schools' Insurance Group

Basis of Presentation - Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The District's funds are grouped into two broad fund categories: governmental and fiduciary.

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major and Non major governmental funds:

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

Major Governmental Funds

General Fund

The General Fund is the chief operating fund for all Districts. It is used to account for the ordinary operations of the District. All transactions except those accounted for in another fund are accounted for in this fund.

One fund currently defined as a special revenue fund in the California State Accounting Manual (CSAM) does not meet the GASB Statement No. 54 special revenue fund definition. Specifically, Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, is not substantially composed of restricted or committed revenue sources. While this fund is authorized by statute and will remain open for internal reporting purposes, this fund functions effectively as an extension of the General Fund, and accordingly has been combined with the General Fund for presentation on these audited financial statements.

Special Reserve Fund – Capital Outlay

The Special Reserve Capital Outlay Fund is used to account for funds set aside and committed for construction projects.

Bond Interest and Redemption Fund

The Bond Interest and Redemption Fund is used for the repayment of bonds issued for a district (*Education Code* Sections 15125-15262).

Non Major Governmental Funds

Special Revenue Funds

The Special Revenue Funds are established to account for the proceeds from specific revenue sources (other than trusts, major capital projects, or debt service) that are restricted or committed to the financing of particular activities and that compose a substantial portion of the inflows of the fund. Additional resources that are restricted, committed, or assigned to the purpose of the fund may also be reported in the fund.

Deferred Maintenance Fund

The Deferred Maintenance Fund is used to account separately for state apportionments and the District's contributions for deferred maintenance purposes (*Education Code* sections 17582-17587) and for items of maintenance approved by the State Allocation Board.

Cafeteria Fund

The Cafeteria Fund is used to account separately for local resources to operate the food service program (*Education Code* sections 38090-38093) and is used only for those expenditures authorized by the governing board as necessary for the operation of the District's food service program (*Education Code* Sections 38091 and 38100).

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

Special Reserve for Retiree Benefits Fund

The Special Reserve for Retiree Benefits Fund is used to account separately for fund committed for retiree benefits.

Capital Project Funds

The Capital Project funds are used to account for and report financial resources that are restricted, committed, or assigned to the acquisition or construction of capital facilities and other capital assets (other than those financed by proprietary funds and trust funds).

Building Fund - The Building Fund exists primarily to account separately for proceeds from the sale of bonds (*Education Code* Section 15146) and may not be used for any purposes other than those for which the bonds were issued.

Capital Facilities Fund - The Capital Facilities Fund is used primarily to account separately for monies received from fees levied on developers or other agencies as a condition of approving a development (*Education Code* sections 17620-17626). Expenditures are restricted to the purposes specified in *Government Code* sections 65970-65981 or to the items specified in agreements with the developer (*Government Code* Section 66006).

Fiduciary Funds

Fiduciary funds are used to account for assets held in trustee or agent capacity for others that cannot be used to support the District's own programs. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. The key distinction between trust and agency funds is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

Trust funds are used to account for the assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore, not available to support the District's own programs. The District has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The District's agency fund accounts for student body activities (ASB).

Basis of Accounting - Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the component unit financial statements, but differs from the manner in which governmental fund financial statements are prepared.

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, of the District and for each governmental function. 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, except for depreciation. Program revenues include charges paid by the recipients of the goods or services offered by the programs and 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. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws from the general revenues of the District.

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other activities result from special revenue funds and the restrictions on their net asset use.

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 fund is presented in a separate column. Non major funds are aggregated and presented in a single column.

Governmental Funds

All governmental funds are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting, and the governmental fund financial statements, prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting.

Fiduciary Funds

Fiduciary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are excluded from the government-wide financial statements because they do not represent resources of the District.

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Revenues – Exchange and Non-Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on 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 that 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. Generally, available is defined as collectible within 90 days. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to state-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, certain grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose restrictions. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred Revenue

Deferred revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

Certain grants received before the eligibility requirements are met are recorded as deferred revenue. On the governmental fund financial statements, receivables that will not be collected within the available period are also recorded as deferred revenue.

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable and typically paid within 90 days. Principal and interest on long-term obligations, which have not matured, are recognized when paid in the governmental funds as expenditures. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds but are recognized in the government-wide statements.

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

Deposits and Investments

Investments held at June 30, 2012, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

Restricted Assets

Restricted assets arise when restrictions on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation.

Prepaid Expenditures

Prepaid expenditures (expenses) represent amounts paid in advance of receiving goods or services. The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditures in the benefiting period.

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. Capital assets are long-lived assets of the District. The District maintains a capitalization threshold of \$15,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

When purchased, such assets are recorded as expenditures in the governmental funds and capitalized in the government-wide statement of net assets. The valuation basis for capital assets is historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are capitalized at estimated fair market value on the date donated.

Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 20 to 50 years; improvements/infrastructure, 5 to 50 years; equipment, 2 to 15 years.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental activities of the statement of net assets.

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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 assets. For governmental funds, the current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year-end that have not yet been paid with expendable available financial resources. These amounts are reported in the fund from which the employees who have accumulated leave are paid. The non-current portion of the liability is not reported in the statements but is shown as a component of general long-term debt.

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

A sick leave pool for catastrophic illness has been established for certificated and classified employees. To create this pool, a calculation was made to determine the average sick leave used by certificated and classified personnel over a four-year period of time. The maximum amounts to accrue for certificated and classified personnel are not to exceed \$25,000 and \$19,039, respectively.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the governmental funds.

However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the governmental fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases, and other long-term obligations are recognized as liabilities in the governmental fund financial statements when due.

Deferred Issuance Costs, Premiums and Discounts

In the government-wide financial statements, long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method.

Fund Balances - Governmental Funds

As of June 30, 2012, fund balances of the governmental funds are classified as follows:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – amounts that can be used only for specific purposes determined by a formal action of the governing board. The governing board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions or other action as approved by the governing board.

Assigned – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the District’s adopted policy, only the governing board or designee may assign amounts for specific purposes.

Unassigned - all other spendable amounts.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt 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. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented in the financial statements.

Estimates

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

Budgetary Data

The budgetary process is prescribed by provisions of the California Education Code and requires the governing board to hold a public hearing and adopt an operating budget no later than July 1st of each year. The District governing board satisfied these requirements. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for. For budget purposes, on-behalf payments have not been included as revenue and expenditures as required under generally accepted accounting principles.

Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of San Mateo bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

New Accounting Pronouncements

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, this Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination.

This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. For component units that currently are blended based on the "substantively the same governing body" criterion, it additionally requires that (1) the primary government and the component unit have a financial benefit or burden relationship or (2) management (below the level of the elected officials) of the primary government have operational responsibility (as defined in paragraph 8a) for the activities of the component unit. New criteria also are added to require blending of component units whose total debt outstanding is expected to be repaid entirely or almost entirely with resources of the primary government. The blending provisions are amended to clarify that funds of a blended component unit have the same financial reporting requirements as a fund of the primary government. Lastly, additional reporting guidance is provided for blending a component unit if the primary government is a business-type activity that uses a single column presentation for financial reporting.

This Statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. Early implementation is encouraged.

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier implementation is encouraged.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement No. 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process. Prior to the issuance of this Statement, only two such pronouncements have been issued. Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, requires the reporting of a deferred outflow of resources or a deferred inflow of resources for the changes in fair value of hedging derivative instruments, and Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, requires a deferred inflow of resources to be reported by a transferor government in a qualifying service concession arrangement. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement No. 4.

This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations.

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier implementation is encouraged.

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

In March 2012, the GASB issued Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

This Statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the General Fund and the internal service fund type. As a result, governments should base their decisions about fund type classification on the nature of the activity to be reported, as required in Statements No. 54 and Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

This Statement also amends Statement No. 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, and result in guidance that is consistent with the requirements in Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, respectively. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier implementation is encouraged.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement is effective for fiscal years beginning after June 15, 2014. Earlier application is encouraged.

NOTE 2 – DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2012, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 7,138,710
Fiduciary funds	120,694
Total Deposits and Investments	<u>\$ 7,259,404</u>

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

Deposits and investments as of June 30, 2012, consist of the following:

Cash on hand and in banks	\$ 120,694
Cash in revolving	5,000
Investments	<u>7,133,710</u>
Total Deposits and Investments	<u><u>\$ 7,259,404</u></u>

Policies and Practices

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

Investment in County Treasury

The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 41001). The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts based upon the District's pro-rata share of the amortized 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.

Investment in the State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California government code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in the pool is reported in the accompanying financial statement at amounts based upon the District's pro-rata share of the amortized value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which is recorded on the amortized cost basis.

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

General Authorizations

Limitations as they relate to interest rate risk and concentration of credit risk are indicated in the schedules below:

<u>Authorized Investment Type</u>	<u>Maximum Remaining Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment In One Issuer</u>
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the county and state investment pools. The fair value of the deposits with the County Treasurer at June 30, 2012, was \$7,150,125 and the weighted average of the pool was 1.004 years. The fair value of the deposits with the state investment pool at June 30, 2012, was \$1,747 and the weighted average of the pool was less than one year. The fair value of the deposit with the Charles Schwab Investment Pool at June 30, 2012, was \$12,027 and the weighted average of the program was less than one year.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investments in the county pool, LAIF or the Schwab Pool are not rated as of June 30, 2012.

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

Custodial Credit Risk - Deposits

This 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 agency. 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. The District has no significant custodial credit risk with respect to its deposit balances.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2012, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Special Reserve Capital Outlay Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
Federal Government					
Categorical aid	\$ 69,097	\$ -	\$ -	\$ -	\$ 69,097
State Government					
Apportionment	7,620	-	-	-	7,620
Categorical aid	509,029	-	-	-	509,029
Lottery	35,512	-	-	-	35,512
Local Government					
Interest	12,830	3,117	2,800	1,624	20,371
Other Local Sources	32,250	-	-	3,519	35,769
Total	<u>\$ 666,338</u>	<u>\$ 3,117</u>	<u>\$ 2,800</u>	<u>\$ 5,143</u>	<u>\$ 677,398</u>

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 228,711	\$ -	\$ -	\$ 228,711
Construction in Progress	307,865	891,541	1,183,112	16,294
Total Capital Assets Not Being Depreciated	536,576	891,541	1,183,112	245,005
Capital Assets Being Depreciated:				
Land Improvements	1,524,589	166,154	-	1,690,743
Buildings and Improvements	74,413,049	880,192	-	75,293,241
Furniture and Equipment	1,930,677	112,618	43,110	2,000,185
Total Capital Assets Being Depreciated	77,868,315	1,158,964	43,110	78,984,169
Total Capital Assets	78,404,891	2,050,505	1,226,222	79,229,174
Less Accumulated Depreciation:				
Land Improvements	812,316	78,010	-	890,326
Buildings and Improvements	12,079,359	2,333,533	-	14,412,892
Furniture and Equipment	1,110,004	95,572	17,244	1,188,332
Total Accumulated Depreciation	14,001,679	2,507,115	17,244	16,491,550
Governmental Activities Capital Assets, Net	\$ 64,403,212	\$ (456,610)	\$ 1,208,978	\$ 62,737,624

Depreciation expense was charged as a direct expense to governmental functions as follows:

Governmental Activities	
Instruction	\$ 1,733,486
Supervision of instruction	101,945
Instructional library, media, and technology	38,882
School administration	144,599
Pupil transportation	7,027
Food services	438
Other pupil services	76,161
Community services	22,516
Other general administration	134,001
Data processing services	36,004
Plant services	212,056
Total Depreciation Expense	<u>\$ 2,507,115</u>

HILLSBOROUGH CITY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 5 – INTERFUND TRANSACTIONS

Operating Transfers

Interfund transfers for the year ended June 30, 2012, consisted of the following:

		Transfer In		
		General	Non-Major Governmental	
		Fund	Funds	Total
Transfer Out	Special Reserve - Capital Project Fund	\$ 44,500	\$ -	\$ 44,500
	Non-Major Governmental Funds	-	44,000	44,000
	Total	\$ 44,500	\$ 44,000	\$ 88,500

The Capital Facilities Fund transferred to the Building Fund to cover costs for construction.	\$ 44,000
The Special Reserve Capital Project Fund transferred to the General Fund for cost of high speed internet service.	44,500
	\$ 88,500

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2012, consisted of the following:

	General	Non-Major Governmental	
	Fund	Funds	Total
Vendor payables	\$ 480,331	\$ 33,825	\$ 514,156

NOTE 7 - DEFERRED REVENUE

Deferred revenue at June 30, 2012, consists of the following:

	General	Special Reserve Capital Outlay	
	Fund	Funds	Total
Federal financial assistance	\$ 2,715	\$ -	\$ 2,715
State categorical aid	200	-	200
Other local	-	58,333	58,333
	\$ 2,915	\$ 58,333	\$ 61,248

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

NOTE 8 - TAX AND REVENUE ANTICIPATION NOTES (TRANS)

On July 1, 2011, the District issued \$920,000 Tax and Revenue Anticipation Notes bearing interest at 2%. The notes were issued to supplement cash flows. Interest and principal were due and payable on June 1, 2012. By May 31, 2012 the District had placed 100 percent of principal and interest in an irrevocable trust for the sole purpose of satisfying the notes. The District is not required to make any additional payments on the notes.

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

The changes in the District's long-term obligations during the year consisted of the following:

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012	Due in One Year
General obligation bonds	\$ 63,198,297	\$ 11,109,952	\$ 10,155,000	\$ 64,153,249	\$ 875,000
Bond premium	951,139	724,597	340,720	1,335,016	92,636
Defeasance costs	-	(113,331)	(6,667)	(106,664)	(6,667)
Sub-Total	64,149,436	11,721,218	10,489,053	65,381,601	960,969
Compensated absences	147,020	-	37,086	109,934	109,934
Capital leases	148,313	93,821	42,702	199,432	49,575
Other postemployment benefits	470,166	171,041	-	641,207	-
	<u>\$ 64,914,935</u>	<u>\$ 11,986,080</u>	<u>\$ 10,568,841</u>	<u>\$ 66,332,174</u>	<u>\$ 1,120,478</u>

Bonded Debt

Defeased Bonded Debt

On May 9 2012, the District issued \$8.85 million in General Obligation Bonds (the "2012 Refunding Bonds") with interest rates ranging from two to four percent to advance refund a total of \$9.13 million of outstanding 2003 General Obligation Bonds (the "2003 Series A Bonds") with interest rates ranging from two to five percent. The net proceeds of \$9,420,981 (after payment of \$153,616 in issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payment on the 2003 Series A Bonds. As a result, the 2003 Series A Bonds are considered to be defeased and the liability for those bonds has been removed from the government-wide statement of net assets.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$113,331. This difference, reported in the accompanying financial statements as a deduction from bonds payable is being charged to operations through the year 2028 using the straight line method. The District completed the advance refunding to reduce its total debt services payments over the next 16 years by \$2,089,288 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$1,685,416.

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding 7/1/2011	Addition/ Accretion	Redeemed/ Defeased	Bonds Outstanding 6/30/2012
6/11/2003	9/1/2027	2%-5%	\$ 13,500,000	\$ 9,660,000	\$ -	\$ 9,370,000	\$ 290,000
8/10/2006	9/1/2022	4.25%-5%	16,490,000	14,760,000	-	785,000	13,975,000
8/10/2006	9/1/2031	4.74%-4.88%	12,011,422	15,247,834	744,387	-	15,992,221
1/13/2011	9/1/2044	2%-6.25%	3,020,000	3,020,000	-	-	3,020,000
1/13/2011	9/1/2045	2.35%-7.3%	19,660,012	20,510,463	1,515,565	-	22,026,028
5/9/2012	9/1/2027	0.2%-2.57%	8,850,000	-	8,850,000	-	8,850,000
				<u>\$ 63,198,297</u>	<u>\$ 11,109,952</u>	<u>\$ 10,155,000</u>	<u>\$ 64,153,249</u>

Debt Service Requirements to Maturity

The bonds mature through 2046 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2013	\$ 885,000	\$ 1,245,375	\$ 2,130,375
2014	890,000	1,083,056	1,973,056
2015	1,030,000	1,047,375	2,077,375
2016	1,201,708	1,014,286	2,215,994
2017	1,383,025	964,675	2,347,700
2018-2022	10,371,569	3,826,481	14,198,050
2023-2027	11,131,658	8,517,292	19,648,950
2028-2032	9,072,191	18,971,959	28,044,150
2033-2037	7,360,869	31,381,631	38,742,500
2038-2042	7,023,946	46,063,554	53,087,500
2043-2046	7,456,463	41,897,287	49,353,750
	<u>57,806,429</u>	<u>\$ 156,012,971</u>	<u>\$ 213,819,400</u>
Accretion	6,346,820		
	<u>\$ 64,153,249</u>		

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2012, amounted to \$109,934.

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

Capital Leases

The District has entered into agreements to lease various facilities and equipment. Such agreements are, in substance, purchases (capital leases) and are reported as capital lease obligations. The District's liability on lease agreements with options to purchase is summarized below:

	Crocker Copier	District Office, North & West Copiers	Crocker and Small West Copiers	North Copier	Total
Balance, July 1, 2011	\$ 20,088	\$ 144,611	\$ -	\$ -	\$ 164,699
Additions	-	5,367	38,100	83,780	127,247
Deletions	20,088	33,374	1,905	16,756	72,123
Balance, June 30, 2012	<u>\$ -</u>	<u>\$ 116,604</u>	<u>\$ 36,195</u>	<u>\$ 67,024</u>	<u>\$ 219,823</u>

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2013	\$ 58,504
2014	58,504
2015	58,504
2016	38,596
2017	5,715
Total	<u>219,823</u>
Less: Amount Representing Interest	20,391
Present Value of Minimum Lease Payments	<u>\$ 199,432</u>

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

NOTE 10 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Special Reserve Capital Outlay	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
Nonspendable					
Revolving cash	\$ 5,000	\$ -	\$ -	\$ -	\$ 5,000
Prepaid expenditures	19,145	-	-	-	19,145
Total Nonspendable	<u>24,145</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,145</u>
Restricted					
Legally restricted programs	13,961	-	-	1,914	15,875
Capital projects	-	-	-	181,095	181,095
Debt services	-	-	1,496,041	-	1,496,041
Total Restricted	<u>13,961</u>	<u>-</u>	<u>1,496,041</u>	<u>183,009</u>	<u>1,693,011</u>
Committed					
Deferred maintenance	-	-	-	161,463	161,463
Retiree benefits	-	-	-	331,780	331,780
Total Committed	<u>-</u>	<u>-</u>	<u>-</u>	<u>493,243</u>	<u>493,243</u>
Assigned	<u>997,542</u>	<u>1,327,225</u>	<u>-</u>	<u>-</u>	<u>2,324,767</u>
Unassigned					
Reserve for economic uncertainties	1,749,764	-	-	-	1,749,764
Unassigned	974,919	-	-	-	974,919
Total Unassigned	<u>2,724,683</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,724,683</u>
Total	<u>\$ 3,760,331</u>	<u>\$ 1,327,225</u>	<u>\$ 1,496,041</u>	<u>\$ 676,252</u>	<u>\$ 7,259,849</u>

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

NOTE 11 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

Plan Description

The Postemployment Benefit Plan (the "Plan") is a single-employer defined benefit healthcare plan administered by the Hillsborough City School District. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of 173 active plan members and 45 retirees and beneficiaries currently receiving benefits.

Contribution Information

The contribution requirements of plan members and the District are established and may be amended by the District and the Hillsborough Teachers Association (HTA), the local California Service Employees Association (CSEA), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2011-2012, the District contributed \$116,002 to the plan, all of which was used for current premiums.

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the Plan:

Annual required contribution	\$	263,535
Interest on net OPEB obligation		23,508
Annual OPEB cost (expense)		<u>287,043</u>
Contributions made		<u>(116,002)</u>
Increase in net OPEB obligation		171,041
Net OPEB obligation, beginning of year		470,166
Net OPEB obligation, end of year	\$	<u><u>641,207</u></u>

Trend Information

Trend information for annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation is as follows:

Year Ended June 30,	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Obligation
2012	\$ 287,043	\$ 116,002	40%	\$ 641,207
2011	271,555	112,226	41%	470,166
2010	234,808	84,549	36%	310,837

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

Funded Status and Funding Progress

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, investment returns, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. Below is presented the most recent funding progress of the plan:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Early Age Normal (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
9/1/2010	\$ -	\$ 2,603,901	\$ 2,603,901	0%	\$ 14,142,709	18.41%

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the September 1, 2010, actuarial valuation, the “entry age normal” actuarial cost method was used.

NOTE 12 - RISK MANAGEMENT

Property and Liability

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. During fiscal year ending June 30, 2012, the District contracted with San Mateo County Schools’ Insurance Group (SMCSIG) for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

Workers' Compensation

For fiscal year 2012, the District participated in the SMCSIG, an insurance purchasing pool. The intent of the SMCSIG is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the SMCSIG. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in the SMCSIG. Each participant pays its workers' compensation premium based on its individual rate. A participant will then either receive money from or be required to contribute to the "equity-pooling fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the SMCSIG. Participation in the SMCSIG is limited to districts that can meet the SMCSIG selection criteria.

<u>Insurance Program</u> <u>Company Name</u>	<u>Type of Coverage</u>	<u>Limits</u>
<u>Workers' Compensation Program (PIPS)</u>		
San Mateo County Schools Insurance Group	Workers' Compensation	\$ 155,000,000
<u>Property and Liability Program</u>		
School Excess Liability Fund (SELF)	2nd Excess Liability	\$ 25,000,000
SCSAC Excess Insurance Authority (CSA-EIA)	1st Excess Liability	\$ 5,000,000
San Mateo County Schools Insurance Group	General Liability	\$ 250,000
Public entity Property Insurance Program (PEPIP)	Property	\$ 1,000,000,000
San Mateo County Schools Insurance Group	Property	\$ 250,000

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer retirement plans maintained by agencies of the State of California. Certificated employees are members of the California State Teachers' Retirement System (CalSTRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS).

CalSTRS

Plan Description

The District contributes to the California State Teachers' Retirement System (CalSTRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits, annual cost-of-living adjustments and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7919 Folsom Blvd., Sacramento, CA 95826.

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

Funding Policy

Active plan members are required to contribute 8.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2011-2012 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the fiscal years ending June 30, 2012, 2011, and 2010, were \$946,611, \$933,845, and \$914,068, respectively, and equal 100 percent of the required contributions for each year.

CalPERS

Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95811.

Funding Policy

Active plan members are required to contribute 7.0 percent of their salary and the District is required to contribute an actuarially determined rate. The District has paid on behalf of their employees their required contribution amounts since 1985 based on the bargaining agreement. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2011-2012 was 10.923 percent of covered payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2012, 2011, and 2010, were \$471,114, \$446,047, and \$410,753, respectively, and equal 100 percent of the required contributions for each year.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS at 4.855 percent of the 2012 annual payroll and 4.267 percent of the 2011 and 2010 annual payroll, respectively. The CalSTRS contribution to the District for the fiscal years ending June 30, 2012, 2011, and 2010, were \$537,802, \$482,994, and \$472,765. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budget amounts reported in the General Fund Budgetary Comparison Schedule.

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2012.

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2012.

Construction Commitments

As of June 30, 2012, the District had the following commitments with respect to the unfinished capital projects:

<u>Capital Project</u>	<u>Remaining Construction Commitment</u>
Crocker Middle	
Old Band Room and Gym Renovations	\$ 78,483
Program	<u>7,386</u>
Total	<u>\$ 85,869</u>

NOTE 15 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS, JOINT POWER AUTHORITIES AND OTHER RELATED PARTY TRANSACTIONS

The District is a member of the San Mateo County Schools' Insurance Group ("SMCSIG") joint powers authority (JPA). The District pays an annual premium to the applicable entity for its workers' compensation, property and liability coverage. The relationship between the District and the JPA is such that it is not a component unit of the District for financial reporting purposes.

The entity has budgeting and financial reporting requirements independent of member units and its financial statements are not presented in these financial statements; however, fund transactions between the entity and the District are included in these statements. Audited financial statements are generally available from the respective entities.

The District business manager sits on the governing board of SMCSIG. During the year ended June 30, 2012, the District made payments of \$310,984 to SMCSIG.

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE 16 - SUBSEQUENT EVENTS

The District issued \$420,000 of Tax and Revenue Anticipation Notes dated July 2, 2012. The notes mature on June 1, 2013, and yield two percent interest. The notes were sold to supplement cash flow. Repayment requirements are that fifty percentage of principal be deposited with the Fiscal Agent by January 31, 2013 and remaining principal and interest be deposited by April 30, 2013.

REQUIRED SUPPLEMENTARY INFORMATION

HILLSBOROUGH CITY SCHOOL DISTRICT

GENERAL FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual	Variations -
	Original	Final		Favorable
				(Unfavorable)
				Final to Actual
REVENUES				
Revenue limit sources	\$ 13,700,743	\$ 13,491,540	\$ 13,526,496	\$ 34,956
Federal sources	454,052	471,616	468,093	(3,523)
Other state sources	482,990	548,421	562,908	14,487
Other local sources	5,483,509	5,744,811	5,818,740	73,929
Total Revenues ¹	<u>20,121,294</u>	<u>20,256,388</u>	<u>20,376,237</u>	<u>119,849</u>
EXPENDITURES				
Current				
Certificated salaries	12,040,949	11,832,028	11,808,199	23,829
Classified salaries	2,476,245	2,536,036	2,528,270	7,766
Employee benefits	3,121,520	3,140,396	3,091,517	48,879
Books and supplies	783,155	988,631	794,503	194,128
Services and operating expenditures	2,369,666	2,540,291	2,365,010	175,281
Other outgo	58,618	20,000	18,967	1,033
Capital outlay	-	54,300	54,258	42
Debt service - principal	-	48,532	9,971	38,561
Debt service - interest	-	4,150	42,702	(38,552)
Total Expenditures ¹	<u>20,850,153</u>	<u>21,164,364</u>	<u>20,713,397</u>	<u>450,967</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(728,859)</u>	<u>(907,976)</u>	<u>(337,160)</u>	<u>570,816</u>
Other Financing Sources (Uses):				
Transfers in	44,500	44,500	44,500	-
NET CHANGE IN FUND BALANCES	<u>(684,359)</u>	<u>(863,476)</u>	<u>(292,660)</u>	<u>570,816</u>
Fund Balance - Beginning	<u>3,546,031</u>	<u>3,546,031</u>	<u>3,546,031</u>	<u>-</u>
Fund Balance - Ending - Non GAAP	<u>\$ 2,861,672</u>	<u>\$ 2,682,555</u>	<u>3,253,371</u>	<u>\$ 570,816</u>
Fund Balance - Special Reserve Other			<u>506,960</u>	
Fund Balance - Ending - GAAP			<u>\$ 3,760,331</u>	

¹ On behalf payments of \$537,802 are not included in the actual revenues and expenditures. In addition, due to the consolidation of Special Reserve Fund for Other Than Capital Outlay Projects for reporting purposes into the General Fund, additional revenues and expenditures pertaining to this fund are not included in the Actual revenues and expenditures, and are not included in the original and final General Fund budgets.

SUPPLEMENTARY INFORMATION

HILLSBOROUGH CITY SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
No Child Left Behind			
Title II, Part A, Improving Teacher Quality Local Grants	84.367	14341	\$ 29,877
Education Jobs Program Fund	84.410	25152	165,282
Individuals with Disabilities Act			
IDEA, Basic Local Assistance Entitlement, Part B	84.027	13379	248,465
IDEA, Basic Local Assistance Entitlement, Part B, Private School	84.027	10115	976
IDEA, Preschool Grants, Part B	84.173	13430	8,175
IDEA, Preschool Local Entitlement, Part B	84.027A	13682	15,233
IDEA, Preschool Staff Development, Part B	84.173A	13431	85
Total Expenditures of Federal Awards			<u>\$ 468,093</u>

See accompanying note to supplementary information.

HILLSBOROUGH CITY SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE FOR THE YEAR ENDED JUNE 30, 2012

ORGANIZATION

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>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Gregory Dannis	President	2015
Lynne Esselstein	Vice President	2013
Steven Koury	Clerk	2013
Margi Power	Member	2015
Mary Ellen Benninger	Member	2013

ADMINISTRATION

Anthony Ranii	Superintendent
Elaine Ogawa	Business Manager

See accompanying note to supplementary information.

HILLSBOROUGH CITY SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE FOR THE YEAR ENDED JUNE 30, 2012

	<u>Second Period Report</u>	<u>Annual Report</u>
ELEMENTARY		
Kindergarten	132	132
First through third	469	469
Fourth through sixth	545	545
Seventh and eighth	329	327
Special education	17	17
Total Elementary	<u>1,490</u>	<u>1,491</u>

See accompanying note to supplementary information.

HILLSBOROUGH CITY SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME FOR THE YEAR ENDED JUNE 30, 2012

Grade Level	1982-83	Reduced	1986-87	Reduced	2011-2012	Number of Days	Status
	Actual	1982-83	Minutes	1986-87	Actual	Traditional	
	Minutes	Actual	Requirement	Minutes	Minutes	Calendar	
Kindergarten	32,400	30,800	36,000	35,000	41,470	181	In compliance
Grades 1 - 3							
Grade 1	45,600	46,161	50,400	49,000	52,190	181	In compliance
Grade 2	45,600	46,161	50,400	49,000	52,190	181	In compliance
Grade 3	45,600	46,161	50,400	49,000	54,205	181	In compliance
Grades 4 - 6							
Grade 4	54,000	51,275	54,000	52,500	56,215	181	In compliance
Grade 5	54,000	51,275	54,000	52,500	56,215	181	In compliance
Grade 6	57,780	51,275	54,000	52,500	61,893	181	In compliance
Grades 7 - 8							
Grade 7	57,780	53,044	54,000	52,500	61,893	181	In compliance
Grade 8	57,780	53,044	54,000	52,500	61,893	181	In compliance

See accompanying note to supplementary information.

HILLSBOROUGH CITY SCHOOL DISTRICT

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

Summarized below are the fund balance reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

	<u>General</u>	<u>Special Reserve Non-Capital</u>
FUND BALANCE		
Balance, June 30, 2012, Unaudited Actuals	\$ 3,253,371	\$ 506,960
To conform with GASB 54, the District consolidated the Special Reserve Fund for Other Than Capital Outlay into the General Fund.	506,960	(506,960)
Balance, June 30, 2012, Audited Financial Statements	<u>\$ 3,760,331</u>	<u>\$ -</u>

See accompanying note to supplementary information.

HILLSBOROUGH CITY SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2012

	(Budget) 2013 ¹	2012	2011	2010
GENERAL FUND ⁴				
Revenues	\$ 20,535,529	\$ 20,376,237	\$ 20,477,851	\$ 20,897,060
Other sources and transfers in	44,500	44,500	44,500	44,500
Total Revenues and Other Sources	<u>20,580,029</u>	<u>20,420,737</u>	<u>20,522,351</u>	<u>20,941,560</u>
Expenditures	20,534,949	20,713,397	20,359,924	19,998,190
Other uses and transfers out	-	-	50,794	50,674
Total Expenditures and Other Uses	<u>20,534,949</u>	<u>20,713,397</u>	<u>20,410,718</u>	<u>20,048,864</u>
INCREASE (DECREASE) IN FUND BALANCE	<u>\$ 45,080</u>	<u>\$ (292,660)</u>	<u>\$ 111,633</u>	<u>\$ 892,696</u>
ENDING FUND BALANCE	<u>\$ 3,298,451</u>	<u>\$ 3,253,371</u>	<u>\$ 3,546,031</u>	<u>\$ 3,434,398</u>
AVAILABLE RESERVES ^{2,3}	<u>\$ 2,981,599</u>	<u>\$ 2,724,683</u>	<u>\$ 3,804,015</u>	<u>\$ 3,874,004</u>
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	<u>14.52%</u>	<u>13.15%</u>	<u>18.64%</u>	<u>19.32%</u>
LONG-TERM DEBT	<u>\$ 65,205,029</u>	<u>\$ 66,332,174</u>	<u>\$ 64,914,935</u>	<u>\$ 63,350,777</u>
K-12 AVERAGE DAILY ATTENDANCE AT P-2	<u>1,490</u>	<u>1,490</u>	<u>1,464</u>	<u>1,454</u>

The General Fund balance has decreased by \$181,027 over the past two years. The fiscal year 2012-2013 budget projects an increase of \$45,080. For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo). The District has incurred two operating surpluses and one operating deficit in the past three years and anticipates incurring an operating surplus during the 2012-2013 fiscal year.

Total long-term obligations have increased by \$2,981,397 over the past two years.

Average daily attendance has increased by 36 over the past two years. No change in ADA is anticipated during fiscal year 2012-2013.

¹ Budget 2013 is included for analytical purposes only and has not been subjected to audit.

² Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained within the General Fund and the Special Reserve Fund for Other Than Capital Outlay Projects.

³ On-behalf payments of \$537,802, \$482,994, and \$472,765, have been excluded from the actuals and the calculation of the available reserves percentage for fiscal years ending June 30, 2012, 2011, and 2010, respectively.

⁴ General Fund amounts do not include activity related to the consolidation of the Special Reserve Fund for Other Than Capital Outlay Projects.

See accompanying note to supplementary information.

HILLSBOROUGH CITY SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS COMBINING BALANCE SHEET JUNE 30, 2012

	Cafeteria Fund	Deferred Maintenance Fund	Retiree Benefits Special Reserve Fund
ASSETS			
Deposits and investments	\$ 1,078	\$ 161,120	\$ 331,033
Receivables	836	369	747
Total Assets	<u>\$ 1,914</u>	<u>\$ 161,489</u>	<u>\$ 331,780</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ -	\$ 26	\$ -
Fund Balances:			
Restricted	1,914	-	-
Committed	-	161,463	331,780
Total Fund Balances	<u>1,914</u>	<u>161,463</u>	<u>331,780</u>
Total Liabilities and Fund Balances	<u>\$ 1,914</u>	<u>\$ 161,489</u>	<u>\$ 331,780</u>

See accompanying note to supplementary information.

Building Fund	Capital Facilities Fund	Total Non Major Governmental Funds
\$ 204,037	\$ 7,666	\$ 704,934
445	2,746	5,143
<u>\$ 204,482</u>	<u>\$ 10,412</u>	<u>\$ 710,077</u>
<u>\$ 33,799</u>	<u>\$ -</u>	<u>\$ 33,825</u>
170,683	10,412	183,009
-	-	493,243
<u>170,683</u>	<u>10,412</u>	<u>676,252</u>
<u>\$ 204,482</u>	<u>\$ 10,412</u>	<u>\$ 710,077</u>

HILLSBOROUGH CITY SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2012**

	Cafeteria Fund	Deferred Maintenance Fund	Retiree Benefit Special Reserve Fund
REVENUES			
Other local sources	\$ 4,766	\$ 1,666	\$ 3,294
EXPENDITURES			
Current			
Pupil Services:			
Food services	3,601	-	-
Plant services	-	3,210	-
Facility acquisition and construction	-	8,700	-
Total Expenditures	3,601	11,910	-
Excess (Deficiency) of Revenues Over Expenditures	1,165	(10,244)	3,294
Other Financing Sources (Uses):			
Transfers in	-	-	-
Other sources	-	-	-
Transfers out	-	-	-
Net Financing Sources (Uses)	-	-	-
NET CHANGE IN FUND BALANCES	1,165	(10,244)	3,294
Fund Balance - Beginning	749	171,707	328,486
Fund Balance - Ending	\$ 1,914	\$ 161,463	\$ 331,780

See accompanying note to supplementary information.

Building Fund	Capital Facilities Fund	Total Nonmajor Governmental Funds
\$ 45,051	\$ 48,972	\$ 103,749
-	-	3,601
-	1,867	5,077
917,741	-	926,441
917,741	1,867	935,119
(872,690)	47,105	(831,370)
44,000	-	44,000
6,612	-	6,612
-	(44,000)	(44,000)
50,612	(44,000)	6,612
(822,078)	3,105	(824,758)
992,761	7,307	1,501,010
\$ 170,683	\$ 10,412	\$ 676,252

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2012

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

The accompanying schedule of expenditures of Federal awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Local Education Agency Organization Structure

This schedule provides information about the District's boundaries and schools operated, members of the governing board, and members of the administration.

Schedule of Average Daily Attendance (ADA)

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of the District. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

Schedule of Instructional Time

The District does not received incentive funding for increasing instruction time as provided by the Incentives for longer Instructional Day. 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.

Districts must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirement, whichever is greater, as required by Education Code Section 46201.

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.

Non Major Governmental Funds - Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance

The Non Major Governmental Funds Combining Balance Sheet and Combining Statement of Revenues, Expenditures and Changes in Fund Balance is included to provide information regarding the individual funds that have been included in the Non Major Governmental Funds column on the Governmental Funds Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance.

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 the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Hillsborough City School District as of and for the year ended June 30, 2012, which collectively comprise Hillsborough City School District's basic financial statements and have issued our report thereon dated December 14, 2012. 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.

Internal Control Over Financial Reporting

Management of Hillsborough City School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Hillsborough City School District's internal control over financial reporting as a basis for designing our auditing procedures 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 Hillsborough City School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hillsborough City School District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hillsborough City School District's financial statements are free of 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*.

This report is intended solely for the information and use of the governing board, management, the California Department of Education, the State Controller's Office, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Vawrinck Trime Day + Co. LLP

Palo Alto, California
December 14, 2012



INDEPENDENT AUDITOR’S REPORT ON STATE COMPLIANCE

Board of Trustees
 Hillsborough City School District
 Hillsborough, California

We have audited Hillsborough City School District's compliance with the requirements as identified in the *Standards and Procedures for Audit of California K-12 Local Educational Agencies*, applicable to Hillsborough City School District's government programs as noted below for the year ended June 30, 2012. Compliance with the requirements referred to above is the responsibility of Hillsborough City School District's management. Our responsibility is to express an opinion on Hillsborough City School District's compliance based on our audit.

We conducted our audit 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 *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2011-2012* 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 the applicable government programs noted below. An audit includes examining, on a test basis, evidence about Hillsborough City School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of Hillsborough City School District's compliance with those requirements.

In our opinion, Hillsborough City School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2012, except as described in the Schedule of State Awards Findings and Questioned Costs section of the accompanying Schedule of Findings and Questioned Costs.

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

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Attendance Accounting:		
Attendance reporting	6	Yes
Teacher certification and misassignments	3	Yes

Kindergarten continuance	3	Yes
Independent study	23	Not applicable
Continuation education	10	Not applicable
Instructional Time:		
School districts	6	Yes
County offices of education	3	Not applicable
Instructional Materials:		
General requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	Not applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Public Hearing Requirement - Receipt of Funds	1	Yes
Juvenile Court Schools	8	Not applicable
Exclusion of Pupils - Pertussis Immunization	2	Yes
Class Size Reduction Program (including in charter schools):		
General requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	Not applicable
Districts or charter schools with only one school serving K-3	4	Not applicable
After School Education and Safety Program:		
General requirements	4	Not applicable
After school	5	Not applicable
Before school	6	Not applicable
Charter Schools:		
Contemporaneous records of attendance	3	Not applicable
Mode of instruction	1	Not applicable
Non classroom-based instruction/independent study	15	Not applicable
Determination of funding for non classroom-based instruction	3	Not applicable
Annual instruction minutes classroom based	4	Not applicable

This report is intended solely for the information and use of the governing board, management, the California Department of Education, the State Controller's Office, the California Department of Finance, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Vawrinck Trine Day + Co. LLP

Palo Alto, California
December 14, 2012

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

HILLSBOROUGH CITY SCHOOL DISTRICT

SUMMARY OF AUDITOR'S RESULTS FOR THE YEAR ENDED JUNE 30, 2012

FINANCIAL STATEMENTS

Type of auditor's report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

STATE AWARDS

Type of auditor's report issued on compliance for programs:	<u>Unqualified</u>
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HILLSBOROUGH CITY SCHOOL DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012**

None reported.

HILLSBOROUGH CITY SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

None reported.

HILLSBOROUGH CITY SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2012

Financial Statement Findings

None reported.

Federal Award Findings

None reported.

State Award Findings

None reported.