

**HILLSBOROUGH CITY
SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2011

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, 2011, 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, 2011. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audits. 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 16, 2011 expressed an unqualified opinion on those financial statements.

We conducted our audits 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 2010-11*, 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 audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate fund information of the District and the Hillsborough Recreation, a discrete component unit, as of June 30, 2011, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United State of America.

As discussed in the Notes to the basic financial statements, the accompanying financial statements reflect certain changes required as a result of the implementation of GASB Statement No. 54 for the year ended June 30, 2011. These changes required a restatement to the beginning fund balance of the General Fund and the Non-Major Governmental Funds, as discussed in Note 16.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2011, 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 conjunction with this report in considering the results of our audit.

The required supplementary information, such as management's discussion and analysis and budgetary comparison and other postemployment information as listed in the table of contents, are not a required part of the basic financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Vawrinek Trime Day + Co. LLP

Palo Alto, California
December 9, 2011

HILLSBOROUGH CITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011

This section of the Hillsborough City School District's 2010-2011 annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2011. 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 school 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 2010 CBEDS (California Basic Educational Data System) count, the student population was 1,018 in grades K-5 and 494 in grades 6-8, for a total of 1,512. The students are housed in four schools: North, South, and West Elementary Schools and William H. Crocker Middle School. Approximately 28.0% of the students were Asian, 2.3% were Hispanic, 0.1% was Pacific Islander, 0.1% was African-American, 0.1% was American Indian or Alaska Native, 66.8% were White, 1.8% had multiple designations, and 0.8% declined to state.

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 school district.

Over the years, all Hillsborough Schools have been cited numerous times as California Distinguished Schools. Most recently Crocker Middle School was chosen as a 2011 recipient. South, West, and Crocker Schools have received recognition as National Blue Ribbon Schools. Crocker School has been awarded the National Blue Ribbon 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, 2011

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 2011 testing (between 963 and 986). The District's API was 969, tied for 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 by the end of the 2011-12 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. Bond premium more than offset expenses associated with the sale and the balance was used as credit toward the first assessment of property taxes. 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 as well as add close to \$485,000 to the Debt Service Fund.

To avoid escalating construction costs over time, the District decided to accelerate the construction timeline of four new buildings, one at each school site 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 decision was made to sell 5-year bond anticipation notes (BANs) to go forward with the construction projects and to sell the remaining bond authorization no later than 2013 to pay off the BANs. Although the District must pay interest on the BANs, this cost was anticipated to be less than the growth in escalating construction costs had we waited. 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 are 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 will redeem the BANs on September 1, 2011. As a result of a miscalculation of the amount of underwriter's discount, an additional \$207,345 of proceeds became available to the District to be used for additional building projects.

HILLSBOROUGH CITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

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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 the California Consumer Price Index (CPI), reassessments, and new construction. In 2010-11, the District had zero growth in assessed valuation due to falling property value reassessments, a decreased number of changes in ownership, and a first-time negative California CPI used to determine the change in base property values. The District received \$12,960,128 in local property taxes, \$5,603,404 over its 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 2010-11, the District received \$3.08 million in support of the programs offered to the children of Hillsborough. In addition to this generous local support, the District received \$1.78 million 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. Offsetting this State reduction was one-time funding received through the Federal stimulus program. In 2010-11, still struggling with its on-going fiscal crisis, the State reduced District funding to capture the basic aid "fair share" reduction of 5.81% of the 2009-10 P2 total base revenue limit subject to deficit. This amounted to \$515,422 for the District.

To mitigate the effects of no property tax revenue growth and the fair share take back by the State, the Board approved \$310,000 in expenditure reductions for 2010-11.

HILLSBOROUGH CITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011

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 district-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.

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:

HILLSBOROUGH CITY SCHOOL DISTRICT

MANAGEMENT’S DISCUSSION AND ANALYSIS

JUNE 30, 2011

- 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.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets

The District’s government-wide combined net assets were \$8,026,447 as of June 30, 2011. This was a decrease of 30.1% 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 Government - wide		Total Changes
	2011	2010	
Current and other assets	\$ 10,165.2	\$ 11,872.0	\$ (1,706.8)
Capital assets	64,403.2	64,611.8	(208.6)
Total Assets	74,568.4	76,483.8	(1,915.4)
Current liabilities	1,627.0	3,728.1	(2,101.1)
Long-term debt	64,914.9	61,269.4	3,645.5
Total Liabilities	66,541.9	64,997.5	1,544.4
Net Assets			
Invested in capital assets, net of related debt	1,098.2	3,852.2	(2,754.0)
Restricted	3,020.2	4,718.3	(1,698.1)
Unrestricted	3,908.1	2,915.8	992.3
Total Net Assets	\$ 8,026.5	\$ 11,486.3	\$ (3,459.8)

HILLSBOROUGH CITY SCHOOL DISTRICT

MANAGEMENT’S DISCUSSION AND ANALYSIS

JUNE 30, 2011

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 \$3,459,837. 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 Government - wide		Total
	2011	2010	Changes
Revenues			
Program revenues			
Operating grants & contributions	\$ 623.8	\$ 701.9	\$ (78.1)
Property taxes	13,591.6	13,696.0	(104.4)
Other taxes	3,891.6	3,872.6	19.0
Other general revenues	5,377.1	5,487.4	(110.3)
Total Revenues	23,484.1	23,757.9	(273.8)
Expenses			
Instruction related	18,617.2	17,872.6	744.6
Student support services	749.3	686.5	62.8
Administration	1,747.8	1,681.2	66.6
Maintenance & operations	2,027.3	2,107.0	(79.7)
Other	3,802.4	2,981.2	821.2
Total Expenses	26,944.0	25,328.5	1,615.5
Change in Net Assets	\$ (3,459.9)	\$ (1,570.6)	\$ (1,889.3)

Expenses related to educating and caring for students accounted for 71.9% of total expenses, a decrease of 1.4% over the prior year. Expenditure commitments consumed all revenues received as well as 30.1% of beginning net assets.

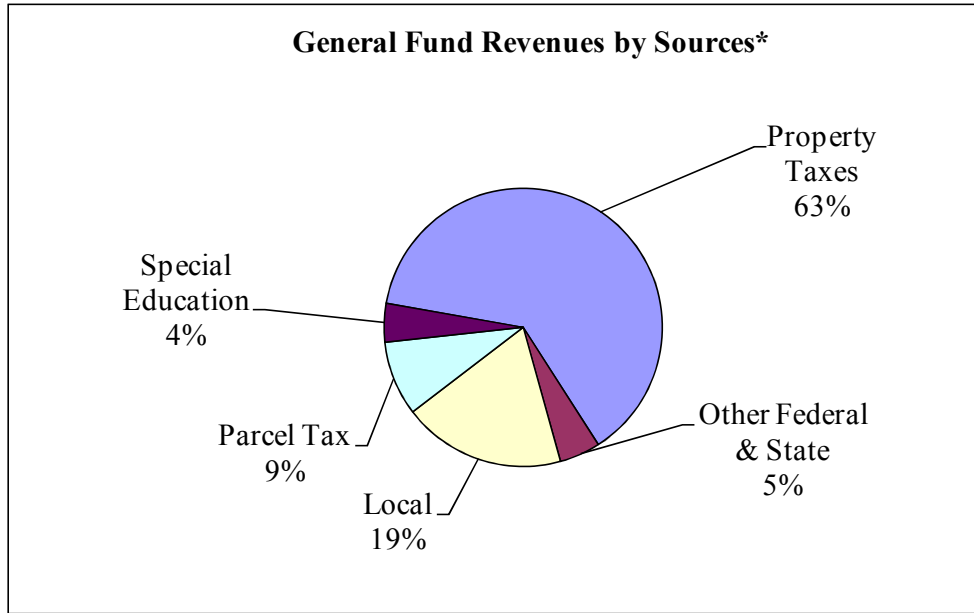
HILLSBOROUGH CITY SCHOOL DISTRICT

MANAGEMENT’S DISCUSSION AND ANALYSIS

JUNE 30, 2011

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 2010-2011 decreased 2.0% from the prior year to \$20,522,351 (not including on behalf payments of \$482,994 by the State to CalSTRS). This decrease resulted from lower Federal (no one-time stimulus money as was received in the prior year), State (larger amount of recaptured dollars), and County Special Education funding. Locally generated revenues amounted to 90.6% of the District’s total revenues.



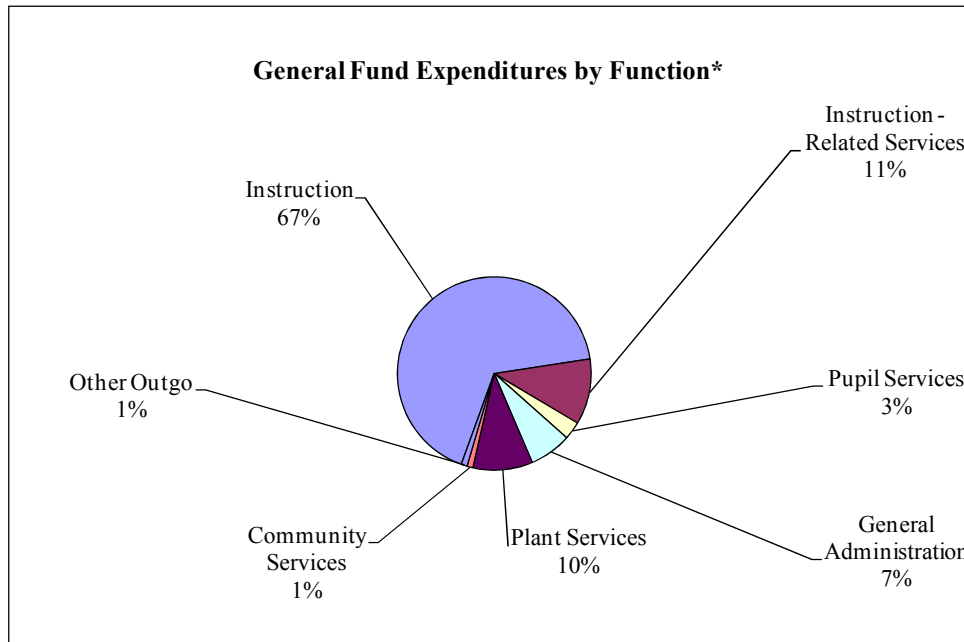
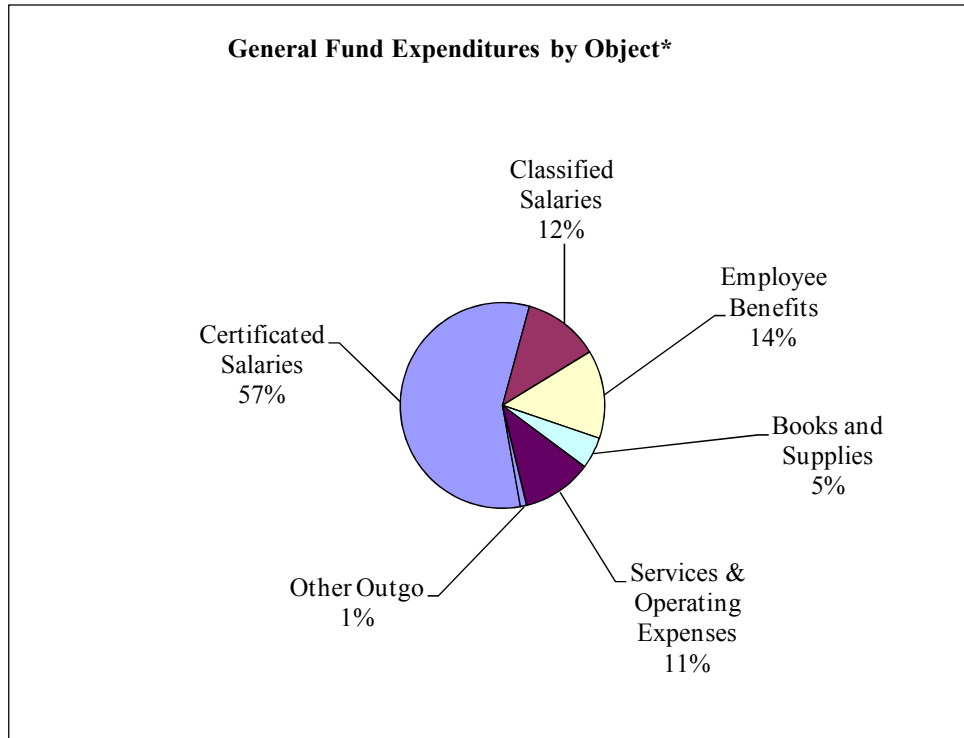
*Excluded from this chart, revenues related to the Special Reserve Fund for Other Than Capital Outlay.

Expenditures increased 1.8% 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 \$20,410,719 (not including on behalf payments of \$482,994 by the State to CalSTRS) expended during 2010-2011, 83.1% 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, 2011



*Excluded transactions related to the Special Reserve for Other Than Capital Outlay.

As seen in the chart above, the District spent 78% of total general fund expenditures on instruction and instruction-related activities.

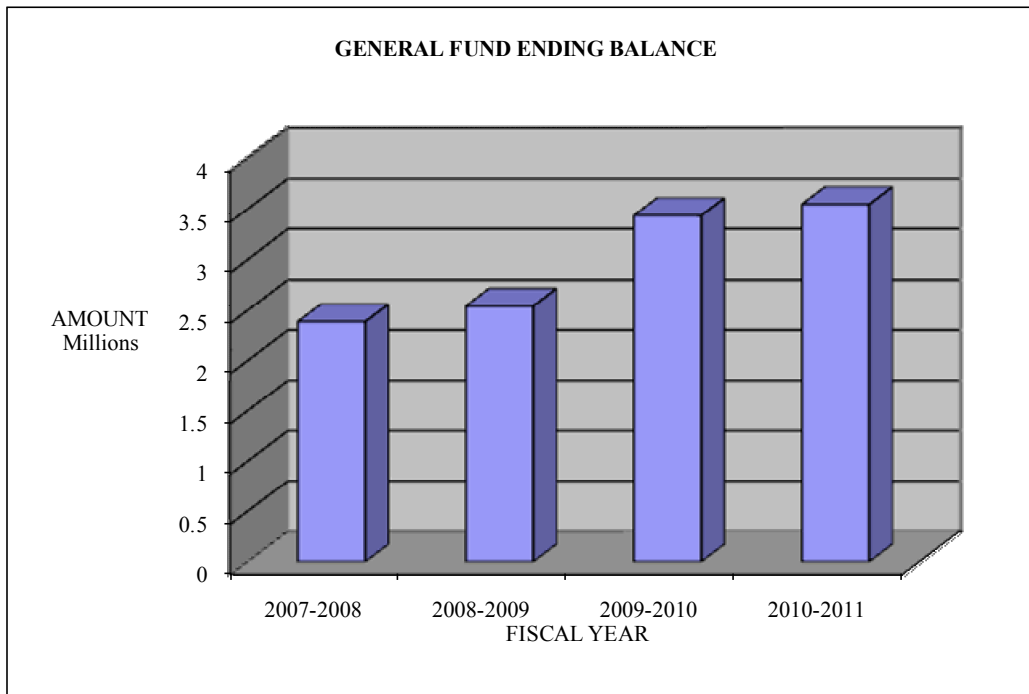
Total revenues of the General fund excluding the Special Reserve Fund for Other Than Capital Outlay exceeded expenditures by \$111,632. This surplus contributed to the ending fund balance of the current year of \$3,546,031.

HILLSBOROUGH CITY SCHOOL DISTRICT

MANAGEMENT’S DISCUSSION AND ANALYSIS

JUNE 30, 2011

Of this amount, \$21,038 was restricted; \$1,444,849 was assigned; and \$2,080,144 was unassigned. The District’s unassigned ending balance amounted to 10.2 % of total General fund expenditures and other uses.



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

General Fund Budgetary Highlights

The Adopted Budget for the General fund anticipated a decrease in the ending balance of \$289,728. The District ended the year with an actual increase of \$111,632. 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.

The Adopted Budget for 2011-12 includes a 1.75% growth in secured property taxes. Soon after budget adoption, the District learned this growth was virtually eliminated with the last minute recording of downward property reassessments. This will result in a reduction of \$218,000 in expected property tax revenues at first interim. Our basic aid fair share reduction will be 8.92% of the 2010-11 P2 total base revenue limit subject to deficit, amounting to \$794,109. This reduction has been legislated by Senate Bill (SB) 70 for 2011-12, as well as for 2012-13, calculated in a similar manner. Total recapture from the State from 2009-10 through 2011-12 will amount to \$1,670,916. To meet the revenue challenges of low property tax revenue growth and fair share take backs by the State, the District will make ongoing annual expenditure reductions of \$136 thousand, increase the annual commitment of the Hillsborough Schools Foundation by \$140 thousand to \$3.14 million, collaborate with the bargaining units to reduce expenditures through retirement incentives, and implement structural changes to instruction beginning in 2012-13. The District aims to continue a conservative budgeting philosophy and eliminate deficit spending in 2012-13.

HILLSBOROUGH CITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

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CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Hillsborough City School District			
Capital Assets at Year-end			
(in thousands of dollars)			
	Total Government - wide		Total Changes
	2011	2010	
Cost:			
Land	\$ 228.7	\$ 228.7	\$ -
Work in Progress	307.9	1,263.4	(955.5)
Improvement of Sites	1,524.6	1,524.6	-
Buildings	74,413.0	71,729.2	2,683.8
Equipment	1,930.7	1,567.8	362.9
	<u>78,404.9</u>	<u>76,313.7</u>	<u>2,091.2</u>
Accumulated Depreciation:			
Improvement of Sites	812.3	733.2	79.1
Buildings	12,079.4	9,930.5	2,148.9
Equipment	1,110.0	1,038.2	71.8
	<u>14,001.7</u>	<u>11,701.9</u>	<u>2,299.8</u>
Net Book Value:			
Land	228.7	228.7	-
Work in Progress	307.9	1,263.4	(955.5)
Improvement of Sites	712.3	791.4	(79.1)
Buildings	62,333.6	61,798.7	534.9
Equipment	820.7	529.6	291.1
	<u>\$ 64,403.2</u>	<u>\$ 64,611.8</u>	<u>\$ (208.6)</u>

By year end, the District had invested \$78.4 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 \$2.1 million from the current year resulted from completion of North School's conversion project resulting in a new library, computer lab, and three classrooms; and Crocker School's renovation of the art room and the multipurpose room. June 2011 saw the beginning of Crocker School's renovation of the old Lecture Hall to a new Science Lab classroom and paving rehabilitation at North, West, and Crocker Schools. Completed portions of Work in Progress were reclassified to other categories. Net book value (the amount of total assets after applying depreciation) decreased \$.2 million from the prior year with higher depreciation write-offs than additions to capital assets.

HILLSBOROUGH CITY SCHOOL DISTRICT

MANAGEMENT’S DISCUSSION AND ANALYSIS

JUNE 30, 2011

Long-Term Debt

Hillsborough City School District			
Outstanding Long-Term Debt at Year-End			
(in thousands of dollars)			
	Total Government - wide		Total Changes
	2011	2010	
Long-Term Debt Outstanding:			
General Obligation Bonds	\$ 63,198.3	\$ 39,818.1	\$ 23,380.2
Bond Anticipation Notes	-	22,278.1	(22,278.1)
Bond Premium	951.1	764.4	186.7
Capitalized Leases	148.3	49.0	99.3
Accumulated Vacation	112.7	98.1	14.6
Sick Leave Bank	34.3	32.3	2.0
Other Postemployment Benefits	470.1	310.8	159.3
	<u>\$ 64,914.8</u>	<u>\$ 63,350.8</u>	<u>\$ 1,564.0</u>

At June 30, 2011, the District had \$63.2 million in general obligation bonds and \$1.7 million in other long-term debt outstanding. In January 2011, the District issued Series C Bonds in the amount of \$22,680,012 to retire the 2008 BANs. Current year accretion of the Capital Appreciation Bonds and the Bond Anticipation Notes amounted to \$2.3 million.

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, 2011

	Governmental Activities	Discrete Component Units	
		Hillsborough Schools Foundation	Hillsborough Recreation
ASSETS			
Deposits and investments	\$ 9,136,671	\$ 9,303,958	\$ 1,581,214
Receivables	617,641	143,754	41,884
Prepaid expenses	410,840	10,936	8,533
Capital assets not being depreciated	536,576	1,178	-
Capital assets being depreciated	77,868,315	6,095	56,518
Less: Accumulated depreciation	(14,001,679)	-	(15,549)
Total Assets	74,568,364	9,465,921	1,672,600
LIABILITIES			
Accounts payable	876,332	3,227,690	79,943
Interest payable	458,252	-	-
Deferred revenue	292,398	-	425,041
Current portion of long-term obligations	1,258,028	-	-
Noncurrent portion of long-term obligations	63,656,907	280,000	-
Total Liabilities	66,541,917	3,507,690	504,984
NET ASSETS			
Invested in capital assets, net of related debt	1,098,224		40,969
Restricted for:			
Debt service	1,338,778	-	-
Capital projects	1,261,069	-	-
Legally restricted	420,398	2,399,058	-
Unrestricted	3,907,978	3,559,173	1,126,647
Total Net Assets	\$ 8,026,447	\$ 5,958,231	\$ 1,167,616

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

HILLSBOROUGH CITY SCHOOL DISTRICT

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011**

Functions/Programs	Expenses	Program Revenues	
		Charges for Services and Sales	Operating Grants and Contributions
Governmental Activities:			
Instruction	\$ 15,996,745	\$ 15,475	\$ 502,162
Instruction-related activities:			
Supervision of instruction	958,228	1,562	35,500
Instructional library, media, and technology	308,116	-	-
School site administration	1,354,094	-	-
Pupil services:			
Home-to-school transportation	42,875	212	309
Food services	9,911	-	-
All other pupil services	696,547	102	2,705
General administration:			
Data processing	301,876	-	-
All other general administration	1,445,886	-	-
Plant services	2,011,229	-	3,663
Facility acquisition and construction	16,021	-	-
Community services	205,176	-	-
Interest on long-term obligations	3,574,744	-	-
Other outgo	22,488	2,862	59,256
Total Governmental-Type Activities	\$ 26,943,936	\$ 20,213	\$ 603,595

General revenues and subventions:

- Property taxes, levied for
- Property taxes, levied for debt
- Taxes levied for other specific
- Federal & State aid not
- Interest and investment
- 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 School Foundation	Hillsborough Recreation	
\$ (15,479,108)	\$ -	\$ -	
(921,166)	-	-	
(308,116)	-	-	
(1,354,094)	-	-	
(42,354)	-	-	
(9,911)	-	-	
(693,740)	-	-	
(301,876)	-	-	
(1,445,886)	(492,591)	(280,699)	
(2,007,566)	-	-	
(16,021)	-	-	
(205,176)	-	-	
(3,574,744)	-	-	
39,630	(3,496,050)	(1,469,670)	
<u>(26,320,128)</u>	<u>(3,988,641)</u>	<u>(1,750,369)</u>	
13,591,614	-	-	
2,110,377	-	-	
1,781,232	-	-	
772,917	-	-	
71,724	-	12,455	
4,532,427	4,935,085	1,745,156	
<u>22,860,291</u>	<u>4,935,085</u>	<u>1,757,611</u>	
(3,459,837)	946,444	7,242	
11,486,284	5,011,787	1,160,374	
<u>\$ 8,026,447</u>	<u>\$ 5,958,231</u>	<u>\$ 1,167,616</u>	

HILLSBOROUGH CITY SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2011**

	General Fund	Building Fund	Special Reserve Capital Outlay Fund
ASSETS			
Deposits and investments	\$ 3,892,453	\$ 1,131,434	\$ 1,407,706
Receivables	601,453	2,931	4,389
Prepaid expenditures	11,480	-	-
Total Assets	\$ 4,505,386	\$ 1,134,365	\$ 1,412,095
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 326,061	\$ 141,604	\$ -
Deferred revenue	134,065	-	158,333
Total Liabilities	460,126	141,604	158,333
Fund Balances:			
Nonspendable	16,480	-	-
Restricted	4,558	992,761	-
Committed	-	-	-
Assigned	-	-	1,253,762
Unassigned	4,024,222	-	-
Total Fund Balances	4,045,260	992,761	1,253,762
Total Liabilities and Fund Balances	\$ 4,505,386	\$ 1,134,365	\$ 1,412,095

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

Bond Interest and Redemption Fund	Non Major Governmental Funds	Total Governmental Funds
\$ 2,199,657	\$ 505,421	\$ 9,136,671
6,035	2,833	617,641
-	-	11,480
<u>\$ 2,205,692</u>	<u>\$ 508,254</u>	<u>\$ 9,765,792</u>
\$ 408,662	\$ 5	\$ 876,332
-	-	292,398
<u>408,662</u>	<u>5</u>	<u>1,168,730</u>
-	-	16,480
1,797,030	7,307	2,801,656
-	500,942	500,942
-	-	1,253,762
-	-	4,024,222
<u>1,797,030</u>	<u>508,249</u>	<u>8,597,062</u>
<u>\$ 2,205,692</u>	<u>\$ 508,254</u>	<u>\$ 9,765,792</u>

HILLSBOROUGH CITY SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011**

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

Total Fund Balance - Governmental Funds		\$ 8,597,062
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	\$ 78,404,891	
Accumulated depreciation is	<u>(14,001,679)</u>	
Net Capital Assets		64,403,212
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.		(458,252)
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.		399,360
Long-term liabilities at year end consist of:		
Bonds payable	(64,149,436)	
Capital leases payable	(148,313)	
Compensated absences (vacations)	(147,020)	
Other post employment benefit obligation	<u>(470,166)</u>	
Total Long-Term Liabilities		<u>(64,914,935)</u>
Total Net Assets - Governmental Activities		<u>\$ 8,026,447</u>

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, 2011

	General Fund	Building Fund	Special Reserve Capital Fund
REVENUES			
Revenue limit sources	\$ 13,590,849	\$ -	\$ -
Federal sources	422,183	-	-
Other state sources	1,315,011	-	-
Other local sources	5,640,578	25,183	114,194
Total Revenues	20,968,621	25,183	114,194
EXPENDITURES			
Current			
Instruction	14,251,258	-	-
Instruction-related activities:			
Supervision of instruction	856,167	-	-
Instructional library, media and technology	273,557	-	-
School site administration	1,202,214	-	-
Pupil Services:			
Home-to-school transportation	38,066	-	-
Food services	-	-	-
All other pupil services	618,420	-	-
General administration:			
Data processing	268,017	-	-
All other general administration	1,111,240	-	-
Plant services	1,779,007	-	-
Facility acquisition and construction	199,456	1,445,504	-
Community services	182,225	-	-
Other outgo	22,488	-	-
Debt service:			
Principal	27,977	2,854	-
Interest and other	12,825	229	-
Total Expenditures	20,842,917	1,448,587	-
Excess (Deficiency) of Revenues Over Expenditures	125,704	(1,423,404)	114,194
Other Financing Sources (Uses):			
Transfers in	44,500	58,876	-
Other sources	-	207,345	-
Transfers out	(381,894)	-	(44,500)
Net Financing Sources (Uses)	(337,394)	266,221	(44,500)
NET CHANGE IN FUND BALANCES	(211,690)	(1,157,183)	69,694
Fund Balance - Beginning	4,256,950	2,149,944	1,184,068
Fund Balance - Ending	\$ 4,045,260	\$ 992,761	\$ 1,253,762

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

Bond Interest and Redemption Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 13,590,849
-	-	422,183
6,497	-	1,321,508
2,120,651	57,310	7,957,916
<u>2,127,148</u>	<u>57,310</u>	<u>23,292,456</u>
-	-	14,251,258
-	-	856,167
-	-	273,557
-	-	1,202,214
-	-	38,066
-	8,799	8,799
-	-	618,420
-	-	268,017
-	-	1,111,240
-	13,180	1,792,187
-	603,125	2,248,085
-	-	182,225
-	-	22,488
1,268,662	-	1,299,493
1,135,250	-	1,148,304
<u>2,403,912</u>	<u>625,104</u>	<u>25,320,520</u>
<u>(276,764)</u>	<u>(567,794)</u>	<u>(2,028,064)</u>
-	381,894	485,270
112,416	-	319,761
-	(58,876)	(485,270)
<u>112,416</u>	<u>323,018</u>	<u>319,761</u>
<u>(164,348)</u>	<u>(244,776)</u>	<u>(1,708,303)</u>
1,961,378	753,025	10,305,365
<u>\$ 1,797,030</u>	<u>\$ 508,249</u>	<u>\$ 8,597,062</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, 2011

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

Total Net Change in Fund Balances - Governmental Funds **\$ (1,708,303)**

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

Depreciation expense	(2,398,335)	
Capital outlays	<u>2,255,455</u>	
Net Expense Adjustment		(142,880)

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. (177,651)

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. (65,714)

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 less than the amounts earned by \$16,609. (16,609)

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. 78,293

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. 860,000

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. (2,345,120)

Amortization of the costs of issuance of bonds is an expenditure in the government-wide statements, but is not recorded on the governmental funds. (54,318)

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, 2011

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.	50,013
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.	(74,464)
Payment of the bond anticipation notes is an expense in the governmental funds but it reduced the debt on the statement of net assets and does not impact the statement of activities.	382,977
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.	(236,732)
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.	150,000
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.	(159,329)
Change in Net Assets of Governmental Activities	<u>(3,459,837)</u>

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

HILLSBOROUGH CITY SCHOOL DISTRICT

FIDUCIARY FUND STATEMENT OF NET ASSETS JUNE 30, 2011

	<u>Agency Funds</u>
ASSETS	
Deposits and investments	\$ 129,313
Total Assets	<u>\$ 129,313</u>
 LIABILITIES	
Due to student groups	\$ 129,313
Total Liabilities	<u>\$ 129,313</u>

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

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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 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, 2011

Major Governmental Funds

General Fund - The General Fund is the chief operating fund for all Districts. It is used to account for and report all financial resources not accounted for and reported in another 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.

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.

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 of specific revenue sources that are restricted or committed to expenditures for the specific purpose (other than debt service or capital projects) of the individual funds.

Foundation Special Reserve Fund – The Foundation Special Reserve Fund is used to account for resources received from gifts or bequests pursuant to *Education Code* Section 41031 under which both earnings and principal may be used for purposes that support the District's own programs and where there is a formal trust agreement with the donor.

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).

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

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Capital Project Funds

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

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 fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds.

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.

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.

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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.

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.

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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.

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments

Investments held at June 30, 2011, 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.

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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.

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.

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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, 2011, 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.

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.

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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.

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.

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Changes in Accounting Principles

In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

The initial distinction that is made in reporting fund balance information is identifying amounts that are considered *nonspendable*, such as fund balance associated with inventories. This Statement also provides for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent.

The *restricted* fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. The *committed* fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Amounts in the *assigned* fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. *Unassigned* fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned. Governments are required to disclose information about the processes through which constraints are imposed on amounts in the committed and assigned classifications.

Governments also are required to classify and report amounts in the appropriate fund balance classifications by applying their accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent. Disclosure of the policies in the notes to the financial statements is required.

This Statement also provides guidance for classifying stabilization amounts on the face of the balance sheet and requires disclosure of certain information about stabilization arrangements in the notes to the financial statements.

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified by the provisions in this Statement. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency.

The District has implemented the provisions of this statement for the year ended June 30, 2011.

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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, 2011

NOTE 2 – DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2011, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 9,136,671
Fiduciary funds	129,313
Total Deposits and Investments	<u>\$ 9,265,984</u>

Deposits and investments as of June 30, 2011, consist of the following:

Cash on hand and in banks	\$ 138,018
Cash in revolving	5,000
Investments	9,122,966
Total Deposits and Investments	<u>\$ 9,265,984</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.

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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.

General Authorizations

Limitations as they relate to interest rate risk, credit 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

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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, 2011, was \$9,111,221 and the weighted average of the pool was less than one year. The fair value of the deposits with the state investment pool at June 30, 2011, was \$1,740 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, 2011, 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, 2011.

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.

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 3 - RECEIVABLES

Receivables at June 30, 2011, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Building Fund	Special Reserve Capital Outlay Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
Federal Government						
Categorical aid	\$ 80,409	\$ -	\$ -	\$ -	\$ -	\$ 80,409
State Government						
Apportionment	361	-	-	-	-	361
Categorical aid	389,945	-	-	-	-	389,945
Lottery	101,438	-	-	-	-	101,438
Other State	2,696	-	-	-	-	2,696
Local Government						
Interest	17,302	2,931	4,389	6,035	1,700	32,357
Other Local Sources	9,302	-	-	-	1,133	10,435
Total	<u>\$ 601,453</u>	<u>\$ 2,931</u>	<u>\$ 4,389</u>	<u>\$ 6,035</u>	<u>\$ 2,833</u>	<u>\$ 617,641</u>

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 228,711	\$ -	\$ -	\$ 228,711
Construction in Progress	1,263,416	2,255,455	3,211,006	307,865
Total Capital Assets Not Being Depreciated	1,492,127	2,255,455	3,211,006	536,576
Capital Assets Being Depreciated:				
Land Improvements	1,524,589	-	-	1,524,589
Buildings and Improvements	71,729,234	2,778,906	95,091	74,413,049
Furniture and Equipment	1,567,803	432,100	69,226	1,930,677
Total Capital Assets Being Depreciated	74,821,626	3,211,006	164,317	77,868,315
Total Capital Assets	76,313,753	5,466,461	3,375,323	78,404,891
Less Accumulated Depreciation:				
Land Improvements	733,213	79,103	-	812,316
Buildings and Improvements	9,930,534	2,224,079	75,254	12,079,359
Furniture and Equipment	1,038,200	95,153	23,349	1,110,004
Total Accumulated Depreciation	11,701,947	2,398,335	98,603	14,001,679
Governmental Activities Capital Assets, Net	<u>\$ 64,611,806</u>	<u>\$ 3,068,126</u>	<u>\$ 3,276,720</u>	<u>\$ 64,403,212</u>

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

Governmental Activities	
Instruction	\$ 1,641,267
Supervision of instruction	102,061
Instructional library, media, and technology	32,610
School administration	143,312
Pupil transportation	4,538
Food services	1,049
Other pupil services	73,720
Community services	21,722
Other general administration	132,467
Data processing services	31,949
Plant services	213,640
Total Depreciation Expenses All Activities	<u>\$ 2,398,335</u>

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 5 – INTERFUND TRANSACTIONS

Operating Transfers

Interfund transfers for the year ended June 30, 2011, consisted of the following:

	Transfer From			Total
	General Fund	Building Fund	Non-Major Governmental Funds	
Transfer To General Funds	\$ -	\$ -	\$ 381,894	\$ 381,894
Special Reserve - Capital Outlay	44,500	-	-	44,500
Non-Major Governmental Funds	-	58,876	-	58,876
Total	<u>\$ 44,500</u>	<u>\$ 58,876</u>	<u>\$ 381,894</u>	<u>\$ 485,270</u>

Transfer from the General Fund to Deferred Maintenance Fund for maintenance cost.	\$ 50,794
Transfer from General Fund to Cafeteria Fund for contributions.	4,400
Transfer from General Fund to Special Reserve - Post Retirement Fund for OPEB reserves.	326,700
Transfer from Capital Facilities Fund to the Building Fund for construction related expansion cost.	58,876
Transfer from the Special Reserve - Capital Outlay Fund to the General Fund for the high speed internet system services.	44,500
	<u>\$ 485,270</u>

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2011, consisted of the following:

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
Vendor payables	<u>\$ 326,061</u>	<u>\$ 141,604</u>	<u>\$ 408,662</u>	<u>\$ 5</u>	<u>\$ 876,332</u>

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 7 - DEFERRED REVENUE

Deferred revenue at June 30, 2011, consists of the following:

	General Fund	Special Reserve Capital Outlay Funds	Total
Federal financial assistance	\$ 134,065	\$ -	\$ 134,065
Other local	-	158,333	158,333
	<u>\$ 134,065</u>	<u>\$ 158,333</u>	<u>\$ 292,398</u>

NOTE 8 - TAX AND REVENUE ANTICIPATION NOTES (TRANS)

On July 1, 2010, the District issued \$345,000 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, 2011. 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, 2010	Additions	Deductions	Balance June 30, 2011	Due in One Year
General obligation bonds	\$ 39,818,094	\$ 24,240,203	\$ 860,000	\$ 63,198,297	\$ 1,025,000
Bond Anticipation Note	22,278,060	784,929	23,062,989	-	-
Bond Premium	764,420	236,732	50,013	951,139	50,013
Compensated absences	130,411	16,609	-	147,020	147,020
Capital leases	48,955	177,651	78,293	148,313	35,995
Other Postemployment Benefits	310,837	271,555	112,226	470,166	-
	<u>\$ 63,350,777</u>	<u>\$ 25,727,679</u>	<u>\$ 24,163,521</u>	<u>\$ 64,914,935</u>	<u>\$ 1,258,028</u>

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding 7/1/2010	Addition/ Accretion	Redeemed/ Defeased	Bonds Outstanding 6/30/2011
6/11/2003	9/1/2027	2%-5%	\$ 13,500,000	\$ 9,850,000	\$ -	\$ 190,000	\$ 9,660,000
8/10/2006	9/1/2022	4.25%-5%	16,490,000	15,430,000	-	670,000	14,760,000
8/10/2006	9/1/2031	4.74%-4.88%	12,011,422	14,538,094	709,740	-	15,247,834
8/22/2008	9/1/2013	3.6%	20,749,696	22,278,060	784,929	23,062,989	-
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	-	20,510,463
				<u>\$ 62,096,154</u>	<u>\$ 25,025,132</u>	<u>\$ 23,922,989</u>	<u>\$ 63,198,297</u>

Debt Service Requirements to Maturity

The bonds mature through 2046 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2012	\$ 1,025,000	\$ 1,208,602	\$ 2,233,602
2013	750,000	1,250,613	2,000,613
2014	840,000	1,219,444	2,059,444
2015	985,000	1,181,987	2,166,987
2016-2020	7,942,790	5,164,263	13,107,053
2021-2025	13,077,564	7,704,639	20,782,203
2026-2030	10,746,915	16,288,585	27,035,500
2031-2035	6,369,086	22,773,414	29,142,500
2036-2040	7,145,234	39,657,246	46,802,480
2041-2045	9,512,536	54,624,965	64,137,501
2046	717,309	7,852,691	8,570,000
	<u>59,111,434</u>	<u>\$ 158,926,449</u>	<u>\$ 218,037,883</u>
Accretion	4,086,863		
	<u>\$ 63,198,297</u>		

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2011, amounted to \$147,020.

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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 North & West	District Office Copier	North Copier	West Copier	Total
Balance, July 1, 2010	\$ 30,132	\$ 3,609	\$ 2,797	\$ 14,620	\$ 3,083	\$ 54,240
Additions	-	165,583	-	-	-	165,583
Deletions	10,044	24,581	2,797	14,620	3,083	55,125
Balance, July 1, 2011	<u>\$ 20,088</u>	<u>\$ 144,611</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 164,699</u>

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2012	\$ 42,786
2013	42,786
2014	32,742
2015	32,742
2016	13,643
Total	<u>164,699</u>
Less: Amount Representing Interest	<u>16,386</u>
Present Value of Minimum Lease Payments	<u>\$ 148,313</u>

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 10 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Building Fund	Special Reserve Capital Outlay
Nonspendable			
Revolving cash	\$ 5,000	\$ -	\$ -
Prepaid expenditures	11,480	-	-
Total Nonspendable	<u>16,480</u>	<u>-</u>	<u>-</u>
Restricted			
Legally restricted programs	<u>4,558</u>	<u>992,761</u>	<u>-</u>
Committed	<u>-</u>	<u>-</u>	<u>-</u>
Assigned	<u>-</u>	<u>-</u>	<u>1,253,762</u>
Unassigned			
Reserve for economic uncertainties	1,224,643	-	-
Other	220,206	-	-
Unassigned	<u>2,579,373</u>	<u>-</u>	<u>-</u>
Total Unassigned	<u>4,024,222</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 4,045,260</u>	<u>\$ 992,761</u>	<u>\$ 1,253,762</u>

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
Nonspendable			
Revolving cash	\$ -	\$ -	\$ 5,000
Prepaid expenditures	-	-	11,480
Total Nonspendable	-	-	16,480
Restricted			
Legally restricted programs	1,797,030	7,307	2,801,656
Committed	-	500,942	500,942
Assigned	-	-	1,253,762
Unassigned			
Reserve for economic uncertainties	-	-	1,224,643
Other	-	-	220,206
Unassigned	-	-	2,579,373
Total Unassigned	-	-	4,024,222
Total	\$ 1,797,030	\$ 508,249	\$ 8,597,062

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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 2010-11, the District contributed \$112,226 to the plan, all of which was used for current premiums.

Annual OPEB Cost and Net Asset/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 asset/obligation to the Plan:

Annual required contribution	\$ 256,084
Interest on net OPEB obligation	15,471
Annual OPEB cost (expense)	<u>271,555</u>
Contributions made	<u>(112,226)</u>
Increase in net OPEB obligation	159,329
Net OPEB obligation, beginning of year	<u>310,837</u>
Net OPEB obligation, end of year	<u><u>\$ 470,166</u></u>

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB asset/obligation for 2011 was as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
<u>2011</u>	<u>\$ 271,555</u>	<u>41%</u>	<u>\$ 470,166</u>

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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, 2011, 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, 2011

Workers' Compensation

For fiscal year 2011, 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.

Insurance Program Company Name	Type of Coverage	Limits
<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
CSAC Excess Insurance Authority (CSA-EIA)	1st Excess Liability	\$ 5,000,000
San Mateo County Schools Insurance Group	General Liability	\$ 250,000
<u>Public Entity Property Insurance Program (PEPIP)</u>		
San Mateo County Schools Insurance Group	Property	\$1,000,000,000
	Property	\$ 250,000

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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.

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 2010-2011 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, 2011, 2010, and 2009, were \$933,845, \$914,068, and \$906,479, 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.

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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 2010-2011 was 10.707 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, 2011, 2010, and 2009, were \$446,047, \$410,753, and \$374,916, 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 4.267 percent of the 2011 and 2010 annual payroll and 4.517 percent of annual payroll for 2009, respectively. The CalSTRS contribution to the District for the fiscal years ending June 30, 2011, 2010, and 2009, were \$482,994, \$472,765, and \$496,306. 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.

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, 2011.

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, 2011.

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Construction Commitments

As of June 30, 2011, the District had the following commitments with respect to the unfinished capital projects:

<u>Capital Project</u>	<u>Remaining Construction Commitment</u>
North Elementary	
Paving Rehab Project	\$ 4,520
West Elementary	
Paving Rehab Project	5,640
Crocker Middle	
2010 Conversion Projects	61,451
Old Lecture Hall Conversion	644,606
Paving Rehab Project	130,520
Program	<u>111,022</u>
Total	<u><u>\$ 957,759</u></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 has appointed one board member to the governing board of SMCSIG. During the year ended June 30, 2011, the District made payments of \$244,772 to SMCSIG.

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 16 - RESTATEMENT OF PRIOR YEAR FUND BALANCES

The District's prior year fund balances for the General Fund and for the Non-Major Governmental Funds have been restated as of June 30, 2011 to conform to GASB Statement No. 54's definition of governmental funds. Accordingly, the beginning fund balance of Special Reserve Fund for Other Than Capital Outlay Projects as presented in the Non-Major Governmental Fund opinion unit, is reported as a restatement to the beginning fund balance of the General Fund. The restatement does not change the total fund balance amounts reported in the District's audited financial statements.

As discussed in the Notes to the basic financial statements, the accompanying financial statements reflect certain changes required as a result of the implementation of GASB Statement No. 54 for the year ended June 30, 2011. These changes required a restatement to the beginning fund balance of the General Fund and the Non-Major Governmental Funds.

General Fund

Fund Balance - Beginning	\$ 3,434,398
Change in accounting principles to conform to GASB Statement No. 54	<u>822,552</u>
Fund Balance - Beginning as Restated	<u><u>\$ 4,256,950</u></u>

Non-Major Governmental Funds

Fund Balance - Beginning	\$ 974,387
Reclassification of a prior year major fund to a nonmajor fund	601,190
Change in accounting principles to conform to GASB Statement No. 54	<u>(822,552)</u>
Fund Balance - Beginning as Restated	<u><u>\$ 753,025</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

HILLSBOROUGH CITY SCHOOL DISTRICT

GENERAL FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2011

	Budgeted Amounts		Actual	Variations -
	Original	Final		Favorable
				(Unfavorable)
			Final	
				to Actual
REVENUES				
Revenue limit sources	\$ 13,545,961	\$ 13,543,680	\$ 13,590,850	\$ 47,170
Federal sources	309,233	427,697	422,183	(5,514)
Other state sources	775,681	824,357	832,017	7,660
Other local sources	5,286,843	5,591,633	5,632,801	41,168
Total Revenues ¹	<u>19,917,718</u>	<u>20,387,367</u>	<u>20,477,851</u>	<u>90,484</u>
EXPENDITURES				
Current				
Certificated salaries	11,538,036	11,625,818	11,624,858	960
Classified salaries	2,401,869	2,494,773	2,487,851	6,922
Employee benefits	2,826,993	2,851,799	2,841,393	10,406
Books and supplies	836,707	1,115,249	901,951	213,298
Services and operating expenditures	2,509,549	2,420,780	2,247,950	172,830
Other outgo	-	22,500	22,488	12
Capital outlay	60,000	199,336	198,956	380
Debt service - principal	26,468	35,508	27,977	7,531
Debt service - interest	1,650	4,150	6,500	(2,350)
Total Expenditures ¹	<u>20,201,272</u>	<u>20,769,913</u>	<u>20,359,924</u>	<u>409,989</u>
Excess (Deficiency) of Revenues	<u>(283,554)</u>	<u>(382,546)</u>	<u>117,927</u>	<u>500,473</u>
Other Financing Sources (Uses):				
Transfers in	44,500	44,500	44,500	-
Transfers out	(50,674)	(50,794)	(50,794)	-
Net Financing Sources (Uses)	<u>(6,174)</u>	<u>(6,294)</u>	<u>(6,294)</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>(289,728)</u>	<u>(388,840)</u>	<u>111,633</u>	<u>500,473</u>
Fund Balance - Beginning	<u>3,434,398</u>	<u>3,434,398</u>	<u>3,434,398</u>	<u>-</u>
Fund Balance - Ending - Non GAAP	<u>\$ 3,144,670</u>	<u>\$ 3,045,558</u>	<u>3,546,031</u>	<u>\$ 500,473</u>
Fund Balance - Special Reserve Other			499,229	
Fund Balance - Ending - GAAP			<u>\$ 4,045,260</u>	

¹ On behalf payments of \$482,994 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 is not included in the Actual revenues and expenditures, and are not included in the original and final General Fund budgets.

HILLSBOROUGH CITY SCHOOL DISTRICT

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING
PROGRESS
FOR THE YEAR ENDED JUNE 30, 2011**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry 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)
9/1/2007	\$ -	\$ 2,407,434	\$ 2,407,434	0%	\$ 13,767,918	17.49%
9/1/2010	-	2,603,901	2,603,901	0%	14,142,709	18.41%

SUPPLEMENTARY INFORMATION

HILLSBOROUGH CITY SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011**

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):			
Title IV - Drug Free Schools	84.186	14347	\$ 565
Title II - Teacher Quality	84.367	14341	30,736
Special Education-IDEA			
Basic Local Assistance Entitlement	84.027	13379	255,062
Preschool Grants, Part B	84.173	13430	8,227
Preschool Local Entitlement, Part B	84.027A	13682	15,754
Preschool Staff Development	84.173A	13431	201
ARRA State Fiscal Stabilization Fund	84.394	25008	48,412
Education Jobs Fund	84.410	25152	111,638
Total Expenditures of Federal Awards			<u>\$ 470,595</u>

See accompanying note to supplementary information.

HILLSBOROUGH CITY SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE FOR THE YEAR ENDED JUNE 30, 2011

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	2011
Lynne Esselstein	Vice President	2013
Steven Koury	Clerk	2013
Julie Borden	Member	2011
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, 2011

	Second Period Report	Annual Report
ELEMENTARY		
Kindergarten	125	126
First through third	482	485
Fourth through sixth	514	515
Seventh and eighth	325	326
Special education	18	18
Total Elementary	<u>1,464</u>	<u>1,470</u>

See accompanying note to supplementary information.

HILLSBOROUGH CITY SCHOOL DISTRICT

**SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2011**

Grade Level	1982-83	Reduced	1986-87	Reduced	2010-2011	Number of Days	
	Actual Minutes	1982-83 Actual Minutes	Minutes Requirement	1986-87 Minutes Requirements	Actual Minutes	Traditional Calendar	Status
Kindergarten	32,400	31,500	36,000	35,000	41,400	181	Complied
Grades 1-3	45,600	44,333	50,400	49,000			
Grade 1					52,200	181	Complied
Grade 2					52,200	181	Complied
Grade 3					54,180	181	Complied
Grades 4-5	54,000	52,500	54,000	52,500			
Grade 4					56,205	181	Complied
Grade 5					56,205	181	Complied
Grades 6-8	57,780	56,175	54,000	52,500	61,935	181	Complied
Grade 6							
Grade 7					61,935	181	Complied
Grade 8					61,935	181	Complied

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, 2011**

There were no adjustments to Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2011.

See accompanying note to supplementary information.

HILLSBOROUGH CITY SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2011

	(Budget) 2012 ¹	2011	2010	2009
GENERAL FUND ⁴				
Revenues	\$ 20,121,294	\$ 20,477,851	\$ 20,897,060	\$ 20,441,718
Other sources and transfers in	44,500	44,500	44,500	44,500
Total Revenues and Other Sources	20,165,794	20,522,351	20,941,560	20,486,218
Expenditures	20,850,153	20,359,924	19,998,190	20,226,502
Other uses and transfers out	-	50,794	50,674	103,743
Total Expenditures and Other Uses	20,850,153	20,410,718	20,048,864	20,330,245
INCREASE (DECREASE) IN FUND BALANCE	\$ (684,359)	\$ 111,633	\$ 892,696	\$ 155,973
ENDING FUND BALANCE	\$ 2,861,672	\$ 3,546,031	\$ 3,434,398	\$ 2,541,702
AVAILABLE RESERVES ^{2,3}	\$ 2,463,734	\$ 3,804,015	\$ 3,874,004	\$ 3,072,958
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	11.82%	18.64%	19.32%	15.12%
LONG-TERM DEBT	\$ 63,646,907	\$ 64,914,935	\$ 63,350,777	\$ 62,505,959
K-12 AVERAGE DAILY ATTENDANCE AT P-2	1,453	1,464	1,454	1,411

The General Fund balance has increased by \$1,004,329 over the past two years. The fiscal year 2011-2012 budget projects a decrease of \$684,359. For a district this size, the State recommends available reserves of at least 3 percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred three operating surpluses in the past three years and anticipates incurring an operating deficit during the 2011-2012 fiscal year. Total long-term obligations have increased by \$2,408,976 over the past two years.

Average daily attendance has increased by 53 over the past two years. A decline of 11 ADA is anticipated during fiscal year 2011-2012.

¹ Budget 2012 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 \$482,994, \$472,765, and \$496,306 have been excluded from the actuals and the calculation of the available reserves percentage for fiscal years ending June 30, 2011, 2010, and 2009, respectively.

⁴ General Fund amounts do not include activity related to the consolidation of Fund 17 Special Reserve – Other.

See accompanying note to supplementary information.

HILLSBOROUGH CITY SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2011**

	<u>Cafeteria Fund</u>	<u>Deferred Maintenance Fund</u>	<u>Foundation Fund</u>
ASSETS			
Deposits and investments	\$ 470	\$ 171,178	\$ -
Receivables	284	529	-
Total Assets	<u>\$ 754</u>	<u>\$ 171,707</u>	<u>\$ -</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 5	\$ -	\$ -
Fund Balances:			
Restricted	-	-	-
Committed	749	171,707	-
Total Fund Balances	<u>749</u>	<u>171,707</u>	<u>-</u>
Total Liabilities and Fund Balances	<u>\$ 754</u>	<u>\$ 171,707</u>	<u>\$ -</u>

See accompanying note to supplementary information.

Retiree Benefits Special Reserve Fund	Capital Facilities Fund	Total Non Major Governmental Funds
\$ 327,474	\$ 6,299	\$ 505,421
1,012	1,008	2,833
<u>\$ 328,486</u>	<u>\$ 7,307</u>	<u>\$ 508,254</u>
-	-	5
-	7,307	7,307
328,486	-	500,942
<u>328,486</u>	<u>7,307</u>	<u>508,249</u>
<u>\$ 328,486</u>	<u>\$ 7,307</u>	<u>\$ 508,254</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, 2010**

	Cafeteria Fund	Deferred Maintenance Fund	Foundation Fund
REVENUES			
Other local sources	\$ 3,226	\$ 1,679	\$ 1,935
Total Revenues	<u>3,226</u>	<u>1,679</u>	<u>1,935</u>
EXPENDITURES			
Current			
Food services	8,799	-	-
Plant services	-	8,200	-
Facility acquisition and construction	-	-	603,125
Total Expenditures	<u>8,799</u>	<u>8,200</u>	<u>603,125</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(5,573)</u>	<u>(6,521)</u>	<u>(601,190)</u>
Other Financing Sources (Uses):			
Transfers in	4,400	50,794	-
Transfers out	-	-	-
Net Financing Sources (Uses)	<u>4,400</u>	<u>50,794</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>(1,173)</u>	<u>44,273</u>	<u>(601,190)</u>
Fund Balance - Beginning	<u>1,922</u>	<u>127,434</u>	<u>601,190</u>
Fund Balance - Ending	<u>\$ 749</u>	<u>\$ 171,707</u>	<u>\$ -</u>

See accompanying note to supplementary information.

Retiree Benefit Special Reserve Fund	Capital Facilities Fund	Total Nonmajor Governmental Funds
\$ 1,786	\$ 48,684	\$ 57,310
1,786	48,684	57,310
-	-	8,799
-	4,980	13,180
-	-	603,125
-	4,980	625,104
1,786	43,704	(567,794)
326,700	-	381,894
-	(58,876)	(58,876)
326,700	(58,876)	323,018
328,486	(15,172)	(244,776)
-	22,479	753,025
\$ 328,486	\$ 7,307	\$ 508,249

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2011

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

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, 2011, which collectively comprise Hillsborough City School District's basic financial statements and have issued our report thereon dated December 9, 2011. 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

The 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 above.

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 Trine Day + Co. LLP

Palo Alto, California
December 9, 2011



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 2010-11* applicable to Hillsborough City School District's government programs as noted below for the year ended June 30, 2011. 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 2010-11* 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, 2011.

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:

	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance reporting	8	Yes
Kindergarten continuance	3	Yes
Independent study	23	Not Applicable
Continuation education	10	Not Applicable
Instructional Time:		

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
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
Class Size Reduction Program (including in Charter Schools):		
General requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	Not Applicable
District 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	4	Not Applicable
Before school	5	Not Applicable
Charter Schools:		
Contemporaneous records of attendance	1	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	3	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 Trime Day + Co. LLP

Palo Alto, California
December 9, 2011

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

HILLSBOROUGH CITY SCHOOL DISTRICT

**SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2011**

FINANCIAL STATEMENTS

Type of auditor's report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) 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, 2011**

None reported.

HILLSBOROUGH CITY SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011**

None reported.

HILLSBOROUGH CITY SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011**

None reported.