

**HILLSBOROUGH CITY  
SCHOOL DISTRICT**

**ANNUAL FINANCIAL REPORT**

**JUNE 30, 2013**

# HILLSBOROUGH CITY SCHOOL DISTRICT

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JUNE 30, 2013

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***FINANCIAL SECTION***

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## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Hillsborough City School District  
Hillsborough, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hillsborough City School District (the District) as of and for the year ended June 30, 2013, and the related notes to the financial statements, 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, 2013. We did not audit the financial statements of the Hillsborough Schools Foundation, a discrete component unit, and we do not express an opinion or any other form of assurance on them.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Education Agencies 2012-2013*, 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 from material misstatement.

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

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Hillsborough City School District and Hillsborough Recreation, a discrete component unit, as of June 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hillsborough City School District's basic financial statements. The Schedule of Expenditures of Federal Awards, as required by Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, and other supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards and other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2013, on our consideration of the Hillsborough City School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hillsborough City School District's internal control over financial reporting and compliance.

Varrinek Time Day + Co. LLP

Palo Alto, California  
December 15, 2013

# **HILLSBOROUGH CITY SCHOOL DISTRICT**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2013**

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This section of the Hillsborough City School District's 2012-2013 annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2013. Please read it in conjunction with the District's financial statements, which immediately follow this section.

### **PROFILE OF THE DISTRICT**

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

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

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

As of the October 2012 California Basic Educational Data System (CBEDS) count, the student population was 981 in grades K-5 and 542 in grades 6-8, for a total of 1,523. Students are housed in four schools: North, South, and West Elementary Schools and William H. Crocker Middle School. Of the student population, 28.50% were Asian, 3.02% Hispanic, 0.13% Pacific Islander, 0.13% African-American, 0.33% American Indian or Alaska Native, 63.82% White, and 4.07% had multiple designations.

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

Over the years, all Hillsborough Schools have been cited numerous times as California Distinguished Schools. Most recently, South School received recognition in 2012, Crocker Middle School in 2011, North School in 2010, and West School in 2008. South, West, and Crocker Schools also received recognition as National Blue Ribbon Schools; Crocker School received this award four times. Crocker School was honored by the White House as one of the best middle schools in the nation (National Exemplary Secondary School) 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, 2013**

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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 Standards-based Tests in Spanish (STS). 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 2013 testing (between 958 and 981). The District's API was 969, highest in the State of California for the fourth year in a row. 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. The District met fifteen of the seventeen criteria for AYP. The target rate for percent proficient was not met in Mathematics at Crocker Middle School and in English Language Arts by Students with Disabilities. This is the first year for the District to not meet all criteria for AYP, scores are already analyzed and issues addressed.

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

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

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

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

# HILLSBOROUGH CITY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

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

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

### FINANCIAL HIGHLIGHTS

A school district is basic aid when the assessed valuation of the district increases to the point where the local property taxes exceed the State's calculated revenue limit for the district. Hillsborough became basic aid in 1990. Property taxes are based on assessed valuations and vary from year to year due to home sales, change in the California Consumer Price Index (CPI), reassessments, and new construction. In 2012-2013, the District experienced growth in secured assessed valuation of 4.05%, this following two years of no growth due to a decreased number of changes in ownership and downward property value reassessments. The District received \$13,413,759 in local property taxes, \$5,846,073 over total deficiated revenue limit. This primary source funded 64.15% of total expenditures of the General Fund. 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 2012-2013, the District received \$3,415,000 in support of the programs offered to the children of Hillsborough. In addition to this generous local support, the District received \$1,949,007 from a parcel tax.

Since the start of the State's fiscal crisis beginning in 2008-09, the statutory COLAs for revenue limit have been unfunded and deficiated. In 2009-10, the State Budget Act Revision contained a provision for a take back of funds from school districts. A one-time reduction of \$252.99/ADA was assessed, amounting to \$361,385 for the District. Fortunately, funding received through the Federal stimulus program offset this reduction by \$306,201. The State, still struggling with its on-going fiscal crisis, and also in fairness to the revenue limit districts, assessed "fair share" reductions against basic aid districts but taken during the following school year. In 2010-11, State funding was reduced by 5.81% of the 2009-10 Second Principal Apportionment (P2) total base revenue limit subject to deficit. This amounted to \$515,422 for the District. Funding through the Federal stimulus program and the Federal Education Jobs Act offset this reduction by \$160,051. In 2011-12, with no economic improvement in sight, the State increased the basic aid fair share recapture to 8.92% of the 2010-11 P2 total base revenue limit subject to deficit. This amounted to \$794,109 for the District. Federal Education Jobs Act funds of \$165,282 offset this reduction. In 2012-13, the fair share recapture was increased to 9.57% of the 2011-12 P2 total base revenue limit subject to deficit, amounting to \$886,663 for the District. There were no extra Federal funds available to offset this reduction.

# HILLSBOROUGH CITY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**JUNE 30, 2013**

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Since 2008-09, the District focused on the importance of maintaining fiscal integrity by making deliberate expenditure reductions to eliminate deficit spending and operating with a balanced budget where revenues equal or exceed expenditures. The District understands the danger of balancing deficit spending with one-time funds set aside in a reserve. In 2009-10, the Board implemented a combination of expenditure reductions and new revenues amounting to \$703,900, thus eliminating the deficit and increasing the reserve level. To mitigate the effects of no property tax revenue growth and the fair share take back by the State, the Board approved ongoing expenditure reductions of \$310,000 in 2010-11. With continued sluggish growth in assessed valuation and a larger fair share reduction by the State, the District made further ongoing expenditure reductions in 2011-12 of \$136,383, as well as increasing the annual funding commitment of the Hillsborough Schools Foundation by \$140,000 to an annual \$3.14 million, and working with stakeholders to make ongoing structural changes beginning in 2012-13. An expenditure reduction plan was implemented in 2012-13 that was determined to be the least impactful on all students. A \$596,000 reduction was taken across the District to ensure continued positive student outcomes while maintaining balanced programs. Reductions were achieved by modest increases to class size caps, reductions in elementary specialist programs, and reduced frequency or elimination of various middle school electives and lunchtime activities. As part of the solution, conservative, planned use of the unappropriated ending fund balance over the next five years will lower the level of necessary reductions and lessen the impact on students. In addition, all District employees have played a part in keeping the District operating responsibly by agreeing to no salary or benefit improvements since 2008-09.

### OVERVIEW OF THE FINANCIAL STATEMENTS

#### The Financial Statements

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

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

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

# HILLSBOROUGH CITY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013

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### 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 position 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 position and how they have changed. Net position – the difference between the District's assets and liabilities – is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net position 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:

- 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 position and a statement of changes in fiduciary net position. We exclude these activities from the government-wide financial statements because the District cannot use these assets to finance its operations.

# HILLSBOROUGH CITY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

### FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

#### Net Position

The District's government-wide combined net position was \$525,035 as of June 30, 2013. This was a decrease of 85.3% from the year before. This table summarizes and compares the District's net position to the prior year.

<b>Hillsborough City School District</b>			
<b>Net Position</b>			
(in thousands of dollars)			
	Total		Total Changes
	Government-Wide		
	2013	2012	
Current and other assets	\$ 8,786.7	\$ 8,204.8	\$ 581.9
Capital assets	60,656.8	62,737.6	(2,080.8)
Total Assets	<u>69,443.5</u>	<u>70,942.4</u>	<u>(1,498.9)</u>
Current liabilities	973.5	1,039.1	(65.6)
Long-term debt	67,944.9	66,332.2	1,612.7
Total Liabilities	<u>68,918.4</u>	<u>67,371.3</u>	<u>1,547.1</u>
Net Position			
Net investment in capital assets	(6,328.5)	(2,843.4)	(3,485.1)
Restricted	1,642.4	-	1,642.4
Unrestricted	5,211.2	6,414.5	(1,203.3)
Total Net Position	<u>\$ 525.1</u>	<u>\$ 3,571.1</u>	<u>\$ (3,046.0)</u>

# HILLSBOROUGH CITY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

### Changes in Net Position

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 position in the amount of \$3,049,653. The table below summarizes and compares the changes in net position to the prior year.

<b>Hillsborough City School District</b>			
<b>Changes in Statement of Activities</b>			
(in thousands of dollars)			
	Total		Total
	Government-Wide		
	2013	2012	Changes
<b>Revenues</b>			
Program revenues			
Charges for services	\$ 257.8	\$ 188.5	\$ 69.3
Operating grants & contributions	572.1	4,182.6	(3,610.5)
Property taxes for general purposes	14,120.8	13,526.4	594.4
Other taxes	3,949.1	3,838.8	110.3
Other general revenues	5,467.1	1,416.1	4,051.0
<b>Total Revenues</b>	<u>24,366.9</u>	<u>23,152.4</u>	<u>1,214.5</u>
<b>Expenses</b>			
Instruction related	19,505.6	19,297.9	207.7
Student support services	805.5	777.1	28.4
Administration	1,501.1	1,636.5	(135.4)
Maintenance & operations	1,980.7	2,036.9	(56.2)
Other	3,620.2	3,859.5	(239.3)
<b>Total Expenses</b>	<u>27,413.1</u>	<u>27,607.9</u>	<u>(194.8)</u>
<b>Change in Net Position</b>	<u>\$ (3,046.2)</u>	<u>\$ (4,455.5)</u>	<u>\$ 1,409.3</u>

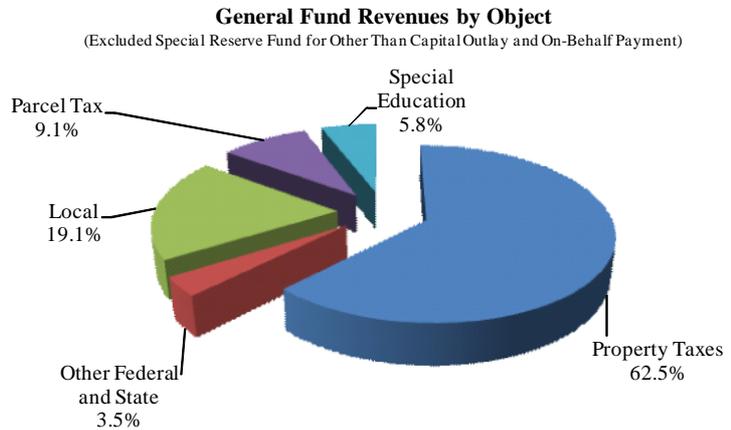
Expenses related to educating and caring for students accounted for 74.1% of total expenses, an increase of 1.2% over the prior year. Expenditure commitments consumed all revenues received as well as 85.3% of beginning net position.

# HILLSBOROUGH CITY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

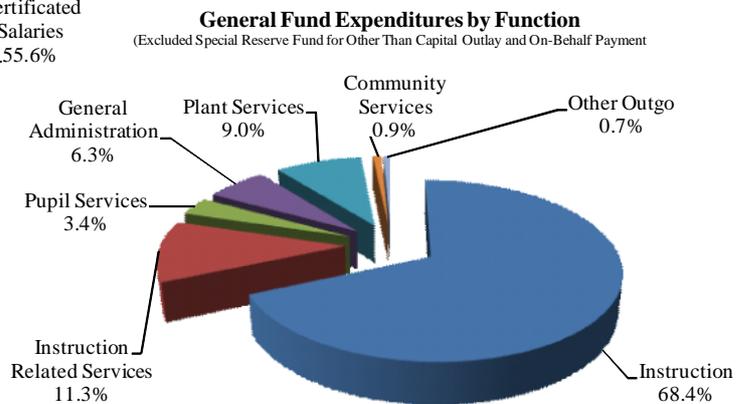
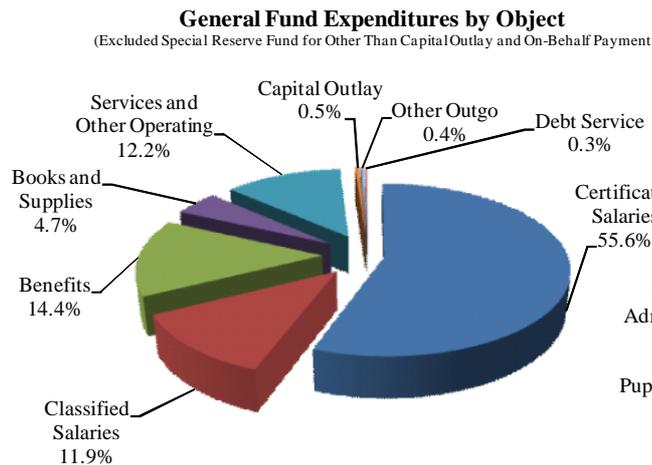
### FINANCIAL ANALYSIS OF THE DISTRICT'S GENERAL FUND

The District is basic aid, which means that the District relies on local property taxes rather than State aid for revenue. Total revenues for 2012-2013 increased 5.1% from the prior year to \$21,461,309 (not including on behalf payments of \$593,838 by the State to CalSTRS). Revenues increased \$573,799 from local property taxes; \$298,472 from newly legislated Education Protection Account funding; \$105,736 from funding related to Special Education; \$133,624 from the parcel tax; \$41,730 from the new Mandate Block Grant; and \$200,757 from various other local sources. This increase was partially offset by \$165,282 with no more funding from the Federal Education Jobs Act; \$55,453 from reduced Class Size Reduction funding; and a \$92,554 increase in the basic aid fair share reduction. Locally generated revenues amounted to 91% of the District's total revenues.



Expenditures increased 0.9% 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 \$20,909,747 (not including on behalf payments of \$593,838 by the State to CalSTRS) expended during 2012-2013, 81.9% was spent on salaries and benefits. See the charts below for a breakdown of general fund expenditures by Object and by Function Code.

As seen in the chart below, the District spent 79.7% of total general fund expenditures on instruction and instruction-related activities.



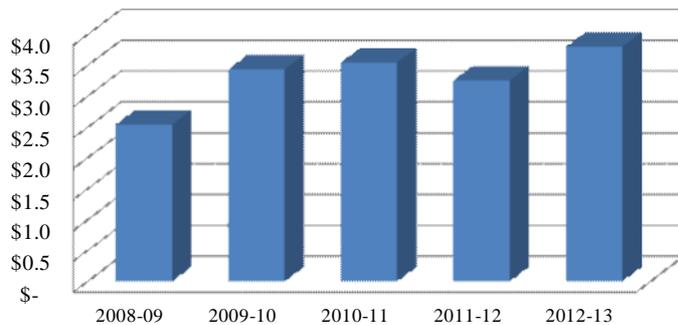
# HILLSBOROUGH CITY SCHOOL DISTRICT

## MANAGEMENT’S DISCUSSION AND ANALYSIS JUNE 30, 2013

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Total revenues exceeded total expenditures in the General Fund, excluding the Special Reserve Fund for Other Than Capital Outlay, by \$551,563. This gain increased the ending fund balance of the current year to \$3,804,934. Of this amount, \$23,857 was nonspendable, \$38,444 was restricted; \$984,494 was assigned; and \$2,758,139 was unassigned. The District’s unassigned ending balance amounted to 13.2% of total General Fund expenditures and other uses.

**General Fund Ending Fund Balances**  
(In Millions)



### General Fund Budgetary Highlights

The Adopted Budget for the General Fund anticipated an increase in the ending balance of \$45,080. The District ended the year with an increase of \$551,563. Revenue projections for the adopted budget were based on conservative assumptions of known revenue sources. Expenditures were budgeted high enough to insure that unforeseen expenses could also be covered. Actual funding and new revenue sources such as local commitments to school sites and the new Education Protection Account funding were included at interims when they became known; expenditures were adjusted to account for actual expenses that occurred as the year progressed, as well as anticipating any other potential expenses that might arise during the remainder of the year that might be necessary to keep the schools operational. The increase from 2012-13 includes \$290,000 of unspent committed funds that will be added to the 2013-14 expenditure budget at first interim.

The Adopted Budget for 2013-14 projects growth in secured property taxes at 5.5%. Local property taxes are estimated to be \$14,075,000. The basic aid fair share reduction of 8.92% of the 2012-13 P2 total base revenue limit subject to deficit amounts to \$826,440. Total reductions by the State from 2009-10 through 2013-14 will amount to \$3.4 million. The State will be moving to a new funding formula touted as a means to correct funding inequities and increase flexibility. The Local Control Funding Formula (LCFF) consolidates revenue limit and most categorical programs into one revenue stream. Funds will be distributed based on a single weighted allocation formula that accounts for disadvantaged students and also provides grades K-3 with additional funding if certain class sizes are met. For basic aid districts such as Hillsborough, where local property taxes exceed the calculated LCFF, a hold harmless provision exists meaning the District will still receive State funding in the amounts received for categoricals in 2012-13 net of the fair share reduction. Negotiations were opened but not settled at budget adoption, the budget includes the cost of step and column only. The District aims to continue a conservative budgeting philosophy.

# HILLSBOROUGH CITY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

### CAPITAL ASSET AND DEBT ADMINISTRATION

#### Capital Assets

<b>Hillsborough City School District</b>			
<b>Capital Assets at Year-End</b>			
(in thousands of dollars)			
	Total		Total Changes
	Government - Wide		
	2013	2012	
<b>Cost:</b>			
Land	\$ 228.7	\$ 228.7	\$ -
Work in progress	31.7	16.3	15.4
Improvement of sites	1,690.7	1,690.7	-
Buildings	75,506.1	75,293.2	212.8
Equipment	2,243.4	2,000.2	243.2
Total Capital Assets	<u>79,700.6</u>	<u>79,229.2</u>	<u>471.4</u>
<b>Accumulated Depreciation:</b>			
Improvement of sites	976.6	890.3	86.3
Buildings	16,765.5	14,412.9	2,352.6
Equipment	1,301.6	1,188.3	113.3
Total Accumulated Depreciation	<u>19,043.8</u>	<u>16,491.6</u>	<u>2,552.2</u>
<b>Net Book Value:</b>			
Land	228.7	228.7	-
Work in progress	31.7	16.3	15.4
Improvement of sites	714.1	800.4	(86.3)
Buildings	58,740.6	60,880.4	(2,139.8)
Equipments	941.7	811.9	129.9
	<u>\$ 60,656.8</u>	<u>\$ 62,737.6</u>	<u>\$ (2,080.8)</u>

By year end, the District had invested \$79.7 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 \$471,396 from the current year resulted from renovation of the Old Band Room and Gym at Crocker School; upgrade and expansion of the entire telephone system; and improvements to the playgrounds at North and West Schools. Summer 2013 saw the installation of a parking lot at the District Office funded entirely by the Hillsborough Beautification Foundation. Completed portions of Work in Progress were reclassified to other categories. Net book value (the amount of total assets after applying depreciation) decreased \$2,080,845 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, 2013**

**Long-Term Debt**

<b>Hillsborough City School District Outstanding Long-Term Debt at Year-End</b> (in thousands of dollars)			
	Total Government-Wide		Total Changes
	2013	2012	
<b>Long-Term Debt Outstanding:</b>			
General obligation bonds	\$ 66,835.4	\$ 65,381.6	\$ 1,453.8
Capitalized leases	149.9	199.4	(50)
Accumulated vacation	81.2	85.1	(3.9)
Sick leave bank	24.8	24.8	-
Other postemployment benefits	853.7	641.2	212.5
	<u>\$ 67,945.0</u>	<u>\$ 66,332.1</u>	<u>\$ 1,612.9</u>

At June 30, 2013, the District had \$66,835,384 in general obligation bonds, net of \$1,256,973 bond premium and \$99,997 defeasance costs, and \$1,109,489 in other long-term debt outstanding. Current year accretion of the Capital Appreciation Bonds amounted to \$2,410,157. The District has thirty years to recognize its Unfunded Actuarial Accrued Liability (UAAL) for Other Post Employment Benefits. This is the fifth of the thirty years. Total UAAL for the District is \$2,859,548.

**FACTORS BEARING ON THE DISTRICT’S FUTURE**

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

The District is ever aware of its reliance on local support. Of total revenues, 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 POSITION JUNE 30, 2013

	Governmental Activities	Discrete Component Units	
		Hillsborough Schools Foundation (Unaudited)	Hillsborough Recreation
<b>ASSETS</b>			
Deposits and investments	\$ 7,659,847	\$ 10,577,962	\$ 2,006,261
Receivables	757,264	341,734	35,106
Prepaid expenses	18,857	10,337	1,626
Deferred charges	350,689	-	-
Capital assets not being depreciated	260,403	-	-
Capital assets being depreciated	79,440,167	23,473	56,518
Less: Accumulated depreciation	(19,043,791)	(17,184)	(21,203)
<b>Total Assets</b>	<b>69,443,436</b>	<b>10,936,322</b>	<b>2,078,308</b>
<b>LIABILITIES</b>			
Accounts payable	547,034	3,519,094	96,965
Interest payable	366,517	-	-
Deferred revenue	59,977	-	516,077
Current portion of long-term obligations	1,119,438	-	-
Noncurrent portion of long-term obligations	66,825,435	342,500	-
<b>Total Liabilities</b>	<b>68,918,401</b>	<b>3,861,594</b>	<b>613,042</b>
<b>NET POSITION</b>			
Net investment in capital assets	(6,328,462)	-	35,315
Restricted for:			
Debt service	1,557,902	-	-
Capital projects	44,099	-	-
Legally restricted	40,362	-	-
Other restrictions	-	2,900,409	-
Unrestricted	5,211,134	4,174,319	1,429,951
<b>Total Net Position</b>	<b>\$ 525,035</b>	<b>\$ 7,074,728</b>	<b>\$ 1,465,266</b>

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

**HILLSBOROUGH CITY SCHOOL DISTRICT**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2013**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>
<b>Governmental Activities:</b>			
Instruction	\$ 16,826,740	\$ 196,666	\$ 441,565
Instruction-related activities:			
Supervision of instruction	990,539	15,867	34,730
Instructional library, media, and technology	341,808	-	-
School site administration	1,346,514	-	-
Pupil services:			
Home-to-school transportation	79,161	3,894	1,046
Food services	2,963	-	-
All other pupil services	723,357	1,899	11,128
General administration:			
Data processing	258,089	-	-
All other general administration	1,243,024	-	-
Plant services	1,980,683	-	-
Community services	211,058	-	-
Interest on long-term obligations	3,327,062	-	-
Other outgo	82,054	39,487	83,600
<b>Total Governmental-Type Activities</b>	<b>\$ 27,413,052</b>	<b>\$ 257,813</b>	<b>\$ 572,069</b>

General revenues and subventions:

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

**Subtotal, General**

**Change in Net Position**

- Net Position - Beginning
- Net Position - Ending

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

<b>Net Revenues, Expenses and Changes in Net Position</b>		
<b>Discrete Component Units</b>		
<b>Hillsborough Schools</b>		
<b>Governmental Activities</b>	<b>Foundation (Unaudited)</b>	<b>Hillsborough Recreation</b>
\$ (16,188,509)	\$ -	\$ -
(939,942.00)	-	-
(341,808.00)	-	-
(1,346,514.00)	-	-
(74,221.00)	-	-
(2,963.00)	-	-
(710,330.00)	-	-
(258,089.00)	-	-
(1,243,024.00)	(385,885)	(280,230)
(1,980,683.00)	-	-
(211,058.00)	-	-
(3,327,062.00)	-	-
41,033.00	(3,566,953)	(1,521,688)
<u>\$ (26,583,170)</u>	<u>(3,952,838)</u>	<u>(1,801,918)</u>
14,120,839	-	-
1,989,812	-	-
1,959,321	-	-
673,331	-	-
69,119	-	6,410
4,724,635	4,918,910	1,927,531
<u>23,537,057</u>	<u>4,918,910</u>	<u>1,933,941</u>
(3,046,113)	966,072	132,023
3,571,148	6,108,656	1,333,243
<u>\$ 525,035</u>	<u>\$ 7,074,728</u>	<u>\$ 1,465,266</u>

**HILLSBOROUGH CITY SCHOOL DISTRICT**

**GOVERNMENTAL FUNDS**

**BALANCE SHEET**

**JUNE 30, 2013**

	<b>General Fund</b>	<b>Building Fund</b>	<b>Special Reserve Capital Outlay Fund</b>
<b>ASSETS</b>			
Deposits and investments	\$ 4,185,874	\$ -	\$ 1,366,211
Receivables	663,476	87,968	2,074
Due from other funds	-	-	87,968
Prepaid expenditures	18,857	-	-
<b>Total Assets</b>	<b>\$ 4,868,207</b>	<b>\$ 87,968</b>	<b>\$ 1,456,253</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 547,034	\$ -	\$ -
Due to other funds	-	87,968	-
Deferred revenue	1,644	-	58,333
<b>Total Liabilities</b>	<b>548,678</b>	<b>87,968</b>	<b>58,333</b>
<b>Fund Balances:</b>			
Nonspendable	23,857	-	-
Restricted	38,444	-	-
Committed	-	-	-
Assigned	984,494	-	1,397,920
Unassigned	3,272,734	-	-
<b>Total Fund Balances</b>	<b>4,319,529</b>	<b>-</b>	<b>1,397,920</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 4,868,207</b>	<b>\$ 87,968</b>	<b>\$ 1,456,253</b>

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

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<b>Bond Interest and Redemption Fund</b>	<b>Non Major Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 1,571,698	\$ 536,064	\$ 7,659,847
2,032	1,714	757,264
-	-	87,968
-	-	18,857
<u>\$ 1,573,730</u>	<u>\$ 537,778</u>	<u>\$ 8,523,936</u>
\$ -	\$ -	\$ 547,034
-	-	87,968
-	-	59,977
<u>-</u>	<u>-</u>	<u>694,979</u>
-	-	23,857
1,573,730	46,017	1,658,191
-	491,761	491,761
-	-	2,382,414
-	-	3,272,734
<u>1,573,730</u>	<u>537,778</u>	<u>7,828,957</u>
<u>\$ 1,573,730</u>	<u>\$ 537,778</u>	<u>\$ 8,523,936</u>

# HILLSBOROUGH CITY SCHOOL DISTRICT

## RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION JUNE 30, 2013

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

**Total Fund Balance - Governmental Funds** **\$ 7,828,957**

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

The cost of capital assets is	\$ 79,700,570	
Accumulated depreciation is	<u>(19,043,791)</u>	
Net Capital Assets		60,656,779

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. (366,517)

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. 350,689

Long-term liabilities, including bonds payable, are not due and payable  
in the current period and, therefore, are not reported as liabilities in the  
governmental funds.

Long-term liabilities at year end consist of:

Bonds payable	(66,835,384)	
Capital leases payable	(149,857)	
Compensated absences (vacations)	(105,955)	
Other post employment benefit obligation	<u>(853,677)</u>	
Total Long-Term Liabilities		<u>(67,944,873)</u>

**Total Net Position - Governmental Activities** **\$ 525,035**

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 BALANCES FOR THE YEAR ENDED JUNE 30, 2013

	General Fund	Building Fund	Special Reserve Capital Outlay Fund
<b>REVENUES</b>			
Revenue limit sources	\$ 14,419,311	\$ -	\$ -
Federal sources	297,797	-	-
Other state sources	1,089,197	-	-
Other local sources	6,211,977	147,654	115,195
<b>Total Revenues</b>	<b>22,018,282</b>	<b>147,654</b>	<b>115,195</b>
<b>EXPENDITURES</b>			
Current			
Instruction	14,898,788	-	-
Instruction-related activities:			
Supervision of instruction	872,895	-	-
Instructional library, media and technology	301,212	-	-
School site administration	1,186,591	-	-
Pupil Services:			
Home-to-school transportation	69,759	-	-
Food services	-	-	-
All other pupil services	637,445	-	-
General administration:			
Data processing	227,437	-	-
All other general administration	1,098,898	-	-
Plant services	1,768,750	-	-
Facility acquisition and construction	103,336	355,871	-
Community services	185,991	-	-
Other outgo	82,054	-	-
Debt service:			
Principal	49,575	-	-
Interest and other	20,853	-	-
<b>Total Expenditures</b>	<b>21,503,584</b>	<b>355,871</b>	<b>-</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>514,698</b>	<b>(208,217)</b>	<b>115,195</b>
<b>Other Financing Sources (Uses):</b>			
Transfers in	44,500	37,534	-
Transfers out	-	-	(44,500)
<b>Net Financing Sources (Uses)</b>	<b>44,500</b>	<b>37,534</b>	<b>(44,500)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>559,198</b>	<b>(170,683)</b>	<b>70,695</b>
<b>Fund Balance - Beginning</b>	<b>3,760,331</b>	<b>170,683</b>	<b>1,327,225</b>
<b>Fund Balance - Ending</b>	<b>\$ 4,319,529</b>	<b>\$ -</b>	<b>\$ 1,397,920</b>

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

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<b>Bond Interest and Redemption Fund</b>	<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ -	\$ -	\$ 14,419,311
-	-	297,797
5,637	-	1,094,834
2,002,801	77,370	8,554,997
<u>2,008,438</u>	<u>77,370</u>	<u>24,366,939</u>
-	-	14,898,788
-	-	872,895
-	-	301,212
-	-	1,186,591
-	-	69,759
-	2,611	2,611
-	-	637,445
-	-	227,437
-	-	1,098,898
-	5,016	1,773,766
-	-	459,207
-	-	185,991
-	-	82,054
885,000	-	934,575
1,045,749	-	1,066,602
<u>1,930,749</u>	<u>7,627</u>	<u>23,797,831</u>
<u>77,689</u>	<u>69,743</u>	<u>569,108</u>
-	-	82,034
-	(37,534)	(82,034)
-	(37,534)	-
77,689	32,209	569,108
1,496,041	505,569	7,259,849
<u>\$ 1,573,730</u>	<u>\$ 537,778</u>	<u>\$ 7,828,957</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, 2013**

---

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

**Total Net Change in Fund Balances - Governmental Funds** **\$ 569,108**

Capital outlay to purchase or build capital assets are reported in governmental funds as expenditures; however, for governmental activities, those costs are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which depreciation exceeds capital outlays in the period.

Depreciation expense	\$ (2,552,241)	
Capital outlays	471,396	
Net Expense Adjustment		(2,080,845)

In the statement of activities, certain operating expenses, such as compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation used was more than the amounts earned by \$3,979.

3,979

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

49,575

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 position and does not affect the statement of activities.

885,000

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

(2,410,159)

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.

Premium	78,043	
Loss on refunding	(6,667)	
Cost of issuance	(18,893)	
Net Amortization Adjustment		52,483

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 (Continued)  
FOR THE YEAR ENDED JUNE 30, 2013**

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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.

97,216

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.

(212,470)

**Change in Net Position of Governmental Activities**

**\$ (3,046,113)**

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

**HILLSBOROUGH CITY SCHOOL DISTRICT**

**FIDUCIARY FUND  
STATEMENT OF NET POSITION  
JUNE 30, 2013**

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	<u>Agency Funds</u>
<b>ASSETS</b>	
Deposits and investments	\$ 109,699
<b>Total Assets</b>	<u>\$ 109,699</u>
 <b>LIABILITIES</b>	
Due to student groups	\$ 109,699
<b>Total Liabilities</b>	<u>\$ 109,699</u>

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

# HILLSBOROUGH CITY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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### 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 transitional kindergarten through eighth as mandated by the State and/or Federal agencies. The District operates three elementary schools and one middle school.

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

#### Component Units

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

#### Joint Powers Agencies and Public Entity Risk Pools

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

- San Mateo County Schools' Insurance Group

#### Basis of Presentation - Fund Accounting

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

#### Governmental Funds

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

# HILLSBOROUGH CITY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

---

### Major Governmental Funds

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

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

**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 used to account for the proceeds from specific revenue sources (other than trusts, major capital projects, or debt service) that are restricted or committed to expenditures for specified purposes and that compose a substantial portion of the inflows of the fund. Additional resources that are restricted, committed, or assigned to the purpose of the fund may also be reported in the fund.

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

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

**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, 2013

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

Trust funds are used to account for the assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore, not available to support the District's own programs. 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 position 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 position 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, 2013

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### 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, 2013

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### **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.

### **Deposits and Investments**

Investments held at June 30, 2013, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

### **Restricted Assets**

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

### **Prepaid Expenditures**

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

### **Capital Assets and Depreciation**

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

# HILLSBOROUGH CITY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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When purchased, such assets are recorded as expenditures in the governmental funds and capitalized in the government-wide statement of net position. 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 position.

### **Compensated Absences**

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

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

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

### **Accrued Liabilities and Long-Term Obligations**

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

# HILLSBOROUGH CITY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

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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 position. 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, 2013, 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.

### **Net Position**

Net position represents the difference between assets and liabilities. Net position net of investments in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is 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 position is available.

# HILLSBOROUGH CITY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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### 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 1 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.

### Changes in Accounting Principles

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

# HILLSBOROUGH CITY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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

The District has implemented the provisions of this Statement for the year ended June 30, 2013.

### **New Accounting Pronouncements**

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

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

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

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

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement.

# HILLSBOROUGH CITY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2013**

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The scope of this Statement addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts that have the following characteristics:

- Contributions from employers and non-employer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- Pension plan assets are legally protected from the creditors of employers, non-employer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared. Employers are classified in one of the following categories for purposes of this Statement:

- Single employers are those whose employees are provided with defined benefit pensions through single-employer pension plans—pension plans in which pensions are provided to the employees of only one employer (as defined in this Statement).
- Agent employers are those whose employees are provided with defined benefit pensions through agent multiple-employer pension plans—pension plans in which plan assets are pooled for investment purposes but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees.
- Cost-sharing employers are those whose employees are provided with defined benefit pensions through cost-sharing multiple-employer pension plans—pension plans in which the pension obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.

This Statement is effective for fiscal years beginning after June 15, 2014. Early implementation is encouraged.

# HILLSBOROUGH CITY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

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### NOTE 2 – DEPOSITS AND INVESTMENTS

#### Summary of Deposits and Investments

Deposits and investments as of June 30, 2013, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 242,700,852
Fiduciary funds	2,464,538
Total Deposits and Investments	<u>\$ 247,381,994</u>

Deposits and investments as of June 30, 2013, consist of the following:

Cash on hand and in banks	\$ 109,699
Cash in revolving	5,000
Investments	7,654,847
Total Deposits and Investments	<u>\$ 7,769,546</u>

#### Policies and Practices

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

#### Investment in County Treasury

The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (*Education Code* Section 41001).

The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts based upon the District's pro-rata share of the amortized value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

#### Investment in the State Investment Pool

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

**HILLSBOROUGH CITY SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

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**General Authorizations**

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

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

**Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the county and state investment pools. The fair value of the deposits with the County Treasurer at June 30, 2013, was \$7,186,859 and the weighted average of the pool was 1.97 years. The fair value of the deposits with the state investment Pool at June 30, 2013, was \$1,753 and the weighted average of the pool 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 and LAIF are not rated as of June 30, 2013.

**HILLSBOROUGH CITY SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

**Custodial Credit Risk - Deposits**

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. The District has no significant custodial credit risk with respect to its deposit balances.

**NOTE 3 - RECEIVABLES**

Receivables at June 30, 2013, 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	\$ 122,502	\$ -	\$ -	\$ -	\$ -	\$ 122,502
State Government						
Apportionment	17,309	-	-	-	-	17,309
Categorical aid	357,058	-	-	-	-	357,058
Lottery	120,972	-	-	-	-	120,972
Local Government						
Interest	8,940	87,968	2,074	2,032	806	101,820
Other Local Sources	36,695	-	-	-	908	37,603
Total	<u>\$ 663,476</u>	<u>\$ 87,968</u>	<u>\$ 2,074</u>	<u>\$ 2,032</u>	<u>\$ 1,714</u>	<u>\$ 757,264</u>

# HILLSBOROUGH CITY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

### NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013
<b>Governmental Activities</b>				
Capital Assets Not Being Depreciated:				
Land	\$ 228,711	\$ -	\$ -	\$ 228,711
Construction in Progress	16,294	471,396	455,998	31,692
Total Capital Assets Not Being Depreciated	245,005	471,396	455,998	260,403
Capital Assets Being Depreciated:				
Land Improvements	1,690,743	-	-	1,690,743.00
Buildings and Improvements	75,293,241	212,816	-	75,506,057
Furniture and Equipment	2,000,185	243,182	-	2,243,367
Total Capital Assets Being Depreciated	78,984,169	455,998	-	79,440,167
Total Capital Assets	79,229,174	927,394	455,998	79,700,570
Less Accumulated Depreciation:				
Land Improvements	890,326	86,318	-	976,644
Buildings and Improvements	14,412,892	2,352,616	-	16,765,508
Furniture and Equipment	1,188,332	113,307	-	1,301,639
Total Accumulated Depreciation	16,491,550	2,552,241	-	19,043,791
Governmental Activities Capital Assets, Net	<u>\$ 62,737,624</u>	<u>\$ (1,624,847)</u>	<u>\$ 455,998</u>	<u>\$ 60,656,779</u>

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

<b>Governmental Activities</b>	
Instruction	\$ 1,767,034
Supervision of instruction	107,825
Instructional library, media, and technology	37,208
School administration	146,575
Pupil transportation	8,617
Food services	323
Other pupil services	78,741
Community services	22,975
Other general administration	135,743
Data processing services	28,094
Plant services	219,106
Total Depreciation Expense	<u>\$ 2,552,241</u>

**HILLSBOROUGH CITY SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

**NOTE 5 – INTERFUND TRANSACTIONS**

**Interfund Receivables/Payables (Due to/Due From)**

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

Interfund receivable and payable balances at June 30, 2013 consisted of the balance of \$87,968 due to Special Reserve - Capital Project Fund from the Building Fund resulted from the recovery of the loss from the investment.

**Operating Transfers**

Interfund transfers for the year ended June 30, 2013, consisted of the following:

		Transfer In		
		General	Building	
		Fund	Fund	Total
Transfer Out	Special Reserve - Capital Project Fund	\$ 44,500	\$ -	\$ 44,500
	Non-Major Governmental Funds	-	37,534	37,534
	Total	\$ 44,500	\$ 37,534	\$ 82,034

The Capital Facilities Fund transferred to the Building Fund to cover costs for construction.	\$ 37,534
The Special Reserve Capital Project Fund transferred to the General Fund for cost of high speed internet service.	44,500
Total	\$ 82,034

**NOTE 6 - ACCOUNTS PAYABLE**

Accounts payable at June 30, 2013, consisted of the following:

Vendor payables	\$ 431,155
Salaries and benefits	115,879
Total	\$ 547,034

**HILLSBOROUGH CITY SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

**NOTE 7 - DEFERRED REVENUE**

Deferred revenue at June 30, 2013, consists of the following:

	General Fund	Special Reserve Capital Outlay Funds	Total
Federal financial assistance	\$ 1,644	\$ -	\$ 1,644
Other local	-	58,333	58,333
Total	<u>\$ 1,644</u>	<u>\$ 58,333</u>	<u>\$ 59,977</u>

**NOTE 8 - TAX AND REVENUE ANTICIPATION NOTES (TRANS)**

On July 2, 2012, the District issued \$420,000 of 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, 2013. By April 30, 2013, the District had placed 100 percent of principal and interest in a restricted account within the county treasury for the sole purpose of satisfying the notes. The District is not required to make any additional payments on the notes.

**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, 2012	Additions	Deductions	Balance June 30, 2013	Due in One Year
General obligation bonds	\$ 64,153,249	\$ 2,410,159	\$ 885,000	\$ 65,678,408	\$ 890,000
Bond premium	1,335,016	-	78,043	1,256,973	78,043
Defeasance costs	(106,664)	-	(6,667)	(99,997)	(6,667)
Sub-Total	65,381,601	2,410,159	956,376	66,835,384	961,376
Compensated absences	109,934	-	3,979	105,955	105,955
Capital leases	199,432	-	49,575	149,857	52,107
Other postemployment benefits	641,207	212,470	-	853,677	-
Total	<u>\$ 66,332,174</u>	<u>\$ 2,622,629</u>	<u>\$ 1,009,930</u>	<u>\$ 67,944,873</u>	<u>\$ 1,119,438</u>

# HILLSBOROUGH CITY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

### Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds
				Outstanding July 1, 2012	Accretion	Redeemed	Outstanding June 30, 2013
06/11/03	09/01/27	2.00%-5.00%	\$ 13,500,000	\$ 290,000	\$ -	\$ 290,000	\$ -
08/10/06	09/01/22	4.25%-5.00%	16,490,000	13,975,000	-	450,000	13,525,000
08/10/06	09/01/31	4.74%-4.88%	12,011,422	15,992,221	780,757	-	16,772,978
01/13/11	09/01/44	2.00%-6.25%	3,020,000	3,020,000	-	10,000	3,010,000
01/13/11	09/01/45	2.35%-7.30%	19,660,012	22,026,028	1,629,402	-	23,655,430
05/09/12	09/01/27	0.20%-2.57%	8,850,000	8,850,000	-	135,000	8,715,000
Total				<u>\$ 64,153,249</u>	<u>\$ 2,410,159</u>	<u>\$ 885,000</u>	<u>\$ 65,678,408</u>

### Debt Service Requirements to Maturity

The bonds mature through 2046 as follows:

Fiscal Year	Interest to		Total
	Principal	Maturity	
2014	\$ 890,000	\$ 1,083,056	\$ 1,973,056
2015	1,030,000	1,047,375	2,077,375
2016	1,201,708	1,014,286	2,215,994
2017	1,383,025	964,675	2,347,700
2018	1,593,548	913,377	2,506,925
2019-2023	11,704,093	3,393,907	15,098,000
2024-2028	10,522,557	10,458,668	20,981,225
2029-2033	8,268,070	21,839,430	30,107,500
2034-2038	7,276,550	33,985,950	41,262,500
2039-2043	6,963,318	49,579,182	56,542,500
2044-2046	6,088,562	30,487,688	36,576,250
Total	<u>56,921,431</u>	<u>\$ 154,767,594</u>	<u>\$ 211,689,025</u>
Accretion	8,756,977		
Total	<u>\$ 65,678,408</u>		

### Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2013, amounted to \$105,955.

# HILLSBOROUGH CITY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

### 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:

	District Office, North & West Copiers	Crocker and Small West Copiers	North Copier	Total
Balance, July 1, 2012	\$ 116,604	\$ 36,195	\$ 67,024	\$ 219,823
Deletions	34,128	7,620	16,756	58,504
Balance, June 30, 2013	<u>\$ 82,476</u>	<u>\$ 28,575</u>	<u>\$ 50,268</u>	<u>\$ 161,319</u>

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2014	\$ 58,504
2015	58,504
2016	38,596
2017	5,715
Total	<u>161,319</u>
Less: Amount Representing Interest	<u>(11,462)</u>
Present Value of Minimum Lease Payments	<u>\$ 149,857</u>

# HILLSBOROUGH CITY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

### NOTE 10 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Special Reserve Capital Outlay	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
<b>Nonspendable</b>					
Revolving cash	\$ 5,000	\$ -	\$ -	\$ -	\$ 5,000
Prepaid expenditures	18,857	-	-	-	18,857
Total Nonspendable	23,857	-	-	-	23,857
<b>Restricted</b>					
Restricted grants	38,444	-	-	1,918	40,362
Capital projects	-	-	-	44,099	44,099
Debt services	-	-	1,573,730	-	1,573,730
Total Restricted	38,444	-	1,573,730	46,017	1,658,191
<b>Committed</b>					
Deferred maintenance	-	-	-	157,602	157,602
Retiree benefits	-	-	-	334,159	334,159
Total Committed	-	-	-	491,761	491,761
<b>Assigned</b>					
Assigned	984,494	1,397,920	-	-	2,382,414
Total Assigned	984,494	1,397,920	-	-	2,382,414
<b>Unassigned</b>					
Reserve for economic uncertainties	1,769,180	-	-	-	1,769,180
Unassigned	1,503,554	-	-	-	1,503,554
Total Unassigned	3,272,734	-	-	-	3,272,734
Total	\$ 4,319,529	\$ 1,397,920	\$ 1,573,730	\$ 537,778	\$ 7,828,957

**HILLSBOROUGH CITY SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2013**

**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 174 active plan members and 46 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 2012-2013, the District contributed \$124,313 to the plan, all of which was used for current premiums.

**Annual OPEB Cost and Net OPEB Obligation**

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

Annual required contribution	\$ 304,723
Interest on net OPEB asset/obligation	32,060
Annual OPEB cost (expense)	<u>336,783</u>
Contributions made	<u>(124,313)</u>
Increase in net OPEB obligation	212,470
Net OPEB obligation, beginning of year	<u>641,207</u>
Net OPEB obligation, end of year	<u><u>\$ 853,677</u></u>

**Trend Information**

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

Year Ended June 30,	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Obligation
2013	\$ 336,783	\$ 124,313	37%	\$ 853,677
2012	287,043	116,002	40%	641,207
2011	271,555	112,226	41%	470,166

**HILLSBOROUGH CITY SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013**

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**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:

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) - Early Age Normal (b)</b>	<b>Unfunded AAL (UAAL) (b - a)</b>	<b>Funded Ratio (a / b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ([b - a] / c)</b>
10/01/12	\$ -	\$ 2,859,548	\$ 2,859,548	0%	\$ 14,126,444	20.24%

**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 October 1, 2012, 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, 2013, 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, 2013**

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**Workers' Compensation**

For fiscal year 2013, 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
SCSAC Excess Insurance Authority (CSA-EIA)	1st Excess Liability	\$ 5,000,000
San Mateo County Schools Insurance Group	General Liability	\$ 250,000
Public entity Property Insurance Program (PEPIP)	Property	\$ 1,000,000,000
San Mateo County Schools Insurance Group	Property	\$ 250,000

**NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS**

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

**CalSTRS**

**Plan Description**

The District contributes to the California State Teachers' Retirement System (CalSTRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits, annual cost-of-living adjustments and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 100 Waterfront Place, West Sacramento, CA 95605.

# HILLSBOROUGH CITY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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### **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 2012-2013 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, 2013, 2012, and 2011, were \$945,296, \$946,611, and \$933,845, respectively, and equal 100 percent of the required contributions for each year.

### **CalPERS**

#### **Plan Description**

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

#### **Funding Policy**

Active plan members are required to contribute 7.0 percent of their salary and the District is required to contribute an actuarially determined rate. The District has paid on behalf of their employees their required contribution amounts since 1985 based on the bargaining agreement. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2012-2013 was 11.417 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, 2013, 2012, and 2011, were \$460,920, \$471,114, and \$446,047, 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 5.176 percent of the 2013 annual payroll and 4.855 and 4.267 percent of the 2012 and 2011 annual payroll, respectively. The CalSTRS contribution to the District for the fiscal years ending June 30, 2013, 2012, and 2011, were \$593,838, \$537,802, and \$482,994. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budget amounts reported in the General Fund Budgetary Comparison Schedule.

# HILLSBOROUGH CITY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

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### 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, 2013.

#### 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, 2013.

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

The District is a member of the San Mateo County Schools' Insurance Group ("SMCSIG") joint powers authority (JPA). The District pays an annual premium to the applicable entity for its workers' compensation, property and liability coverage. The relationship between the District and the JPA is such that it is not a component unit of the District for financial reporting purposes. The entity has budgeting and financial reporting requirements independent of member units and its financial statements are not presented in these financial statements; however, fund transactions between the entity and the District are included in these statements. Audited financial statements are generally available from the respective entities.

The District business manager sits on the governing board of SMCSIG. During the year ended June 30, 2013, the District made payments of \$369,005 to SMCSIG.

### NOTE 16 - SUBSEQUENT EVENTS

#### Tax and Revenue Anticipation Notes

The District issued \$1,515,000 of Tax and Revenue Anticipation Notes dated July 15, 2013. The notes mature on June 2, 2014, and yield two percent interest. The notes were sold to supplement cash flow. Repayment requirements are that fifty percentage of principal be deposited with the Fiscal Agent by January 31, 2014 and remaining principal and interest be deposited by April 30, 2014.

#### All Other Subsequent Events

The District's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the statement of net position dated through December 15, 2013, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that would have a material impact on the current year financial statements.

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***REQUIRED SUPPLEMENTARY INFORMATION***

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**HILLSBOROUGH CITY SCHOOL DISTRICT**

**GENERAL FUND  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2013**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variances -</b>
	<b>Original</b>	<b>Final</b>		<b>Favorable (Unfavorable)</b>
				<b>Final to Actual</b>
<b>REVENUES</b>				
Revenue limit sources	\$ 13,859,540	\$ 14,335,321	\$ 14,419,311	\$ 83,990
Federal sources	300,140	302,003	297,797	(4,206)
Other state sources	420,423	453,183	495,359	42,176
Other local sources	5,955,426	6,217,291	6,204,342	(12,949)
<b>Total Revenues</b> <sup>1</sup>	<b>20,535,529</b>	<b>21,307,798</b>	<b>21,416,809</b>	<b>109,011</b>
<b>EXPENDITURES</b>				
Current				
Certificated salaries	11,715,930	11,629,807	11,627,838	1,969
Classified salaries	2,476,812	2,490,327	2,483,607	6,720
Employee benefits	3,110,448	3,069,451	3,022,596	46,855
Books and supplies	713,086	1,179,342	976,054	203,288
Services and operating expenditures	2,445,155	2,633,185	2,562,400	70,785
Other outgo	20,000	82,070	82,054	16
Capital outlay	-	120,810	96,693	24,117
Debt service - principal	49,368	57,168	49,575	7,593
Debt service - interest	4,150	3,750	8,929	(5,179)
<b>Total Expenditures</b> <sup>1</sup>	<b>20,534,949</b>	<b>21,265,910</b>	<b>20,909,746</b>	<b>356,164</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>580</b>	<b>41,888</b>	<b>507,063</b>	<b>465,175</b>
<b>Other Financing Sources (Uses):</b>				
Transfers in	44,500	44,500	44,500	-
<b>NET CHANGE IN FUND BALANCES</b>	<b>45,080</b>	<b>86,388</b>	<b>551,563</b>	<b>465,175</b>
<b>Fund Balance - Beginning</b>	<b>3,253,371</b>	<b>3,253,371</b>	<b>3,253,371</b>	<b>-</b>
<b>Fund Balance - Ending - Non GAAP</b>	<b>\$ 3,298,451</b>	<b>\$ 3,339,759</b>	<b>3,804,934</b>	<b>\$ 465,175</b>
<b>Fund Balance - Special Reserve Other</b>			<b>514,595</b>	
<b>Fund Balance - Ending - GAAP</b>			<b>\$ 4,319,529</b>	

<sup>1</sup> On behalf payments of \$593,838 are not included in the actual revenues and expenditures. In addition, due to the consolidation of Special Reserve Fund for Other Than Capital Outlay Projects for reporting purposes into the General Fund, additional revenues and expenditures pertaining to this fund are not included in the Actual revenues and expenditures, and are not included in the original and final General Fund budgets.

**HILLSBOROUGH CITY SCHOOL DISTRICT**

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING  
PROGRESS  
FOR THE YEAR ENDED JUNE 30, 2013**

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<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) - Early Age Normal (b)</b>	<b>Unfunded AAL (UAAL) (b - a)</b>	<b>Funded Ratio (a / b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b - a) / c)</b>
10/01/12	\$ -	\$ 2,859,548	\$ 2,859,548	0%	\$ 14,126,444	20.24%
09/01/10	-	2,603,901	2,603,901	0%	14,142,709	18.41%
09/01/07	-	2,407,434	2,407,434	0%	13,767,918	17.49%

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*SUPPLEMENTARY INFORMATION*

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**HILLSBOROUGH CITY SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2013**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
Passed through California Department of Education (CDE):			
No Child Left Behind			
Title II, Part A, Improving Teacher Quality Local Grants	84.367	14341	\$ 23,329
Individuals with Disabilities Act:			
Basic Local Assistance Entitlement, Part B	84.027	13379	252,853
Basic Local Assistance Entitlement, Part B, Private School	84.027	10115	1,612
Preschool Grants, Part B	84.173	13430	6,858
Preschool Local Entitlement, Part B	84.027A	13682	13,064
Preschool Staff Development, Part B	84.173A	13431	81
Total Expenditures of Federal Awards			<u>\$ 297,797</u>

See accompanying note to supplementary information.

# HILLSBOROUGH CITY SCHOOL DISTRICT

## LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE FOR THE YEAR ENDED JUNE 30, 2013

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### 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>
Lynne Esselstein	President	2013
Steven Koury	Vice President	2013
Mary Ellen Benninger	Member	2013
Gregory Dannis	Member	2015
Margi Power	Clerk	2015

### 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, 2013

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	Second Period Report	Annual Report
ELEMENTARY		
Kindergarten	134	135
First through third	459	460
Fourth through sixth	522	521
Seventh and eighth	346	346
Special education	18	19
Total Elementary	<u>1,479</u>	<u>1,481</u>

See accompanying note to supplementary information.

## HILLSBOROUGH CITY SCHOOL DISTRICT

### SCHEDULE OF INSTRUCTIONAL TIME FOR THE YEAR ENDED JUNE 30, 2013

Grade Level	1982-83	Reduced 1982-83	1986-87	Reduced 1986-87	2012-2013	Number of Days	Status
	Actual Minutes	Actual Minutes	Minutes Requirement	Minutes Requirement	Actual Minutes	Traditional Calendar	
Kindergarten	32,400	31,500	36,000	35,000	41,435	180	Complied
Grades 1 - 3							
Grade 1	45,600	46,161	50,400	49,000	52,075	180	Complied
Grade 2	45,600	46,161	50,400	49,000	52,075	180	Complied
Grade 3	45,600	46,161	50,400	49,000	54,080	180	Complied
Grades 4 - 6							
Grade 4	54,000	51,275	54,000	52,500	56,075	180	Complied
Grade 5	54,000	51,275	54,000	52,500	56,075	180	Complied
Grade 6	57,780	51,275	54,000	52,500	62,154	180	Complied
Grades 7 - 8							
Grade 7	57,780	53,044	54,000	52,500	62,154	180	Complied
Grade 8	57,780	53,044	54,000	52,500	62,154	180	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, 2013**

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

	<u>General</u>	<u>Special Reserve Non-Capital</u>
FUND BALANCE		
Balance, June 30, 2013, Unaudited Actuals	\$ 3,804,934	\$ 514,595
To conform with GASB 54, the District consolidated the Special Reserve Fund for Other Than Capital Outlay into the General Fund.	514,595	(514,595)
Balance, June 30, 2013, Audited Financial Statements	<u>\$ 4,319,529</u>	<u>\$ -</u>

See accompanying note to supplementary information.

**HILLSBOROUGH CITY SCHOOL DISTRICT**

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2013**

	(Budget)			
	2014 <sup>1</sup>	2013	2012	2011
<b>GENERAL FUND<sup>4</sup></b>				
Revenues	\$ 22,097,322	\$ 21,416,809	\$ 20,376,237	\$ 20,477,851
Other sources and transfers in	44,500	44,500	44,500	44,500
Total Revenues and Other Sources	22,141,822	21,461,309	20,420,737	20,522,351
Expenditures	21,226,400	20,909,746	20,713,397	20,359,924
Other uses and transfers out	180,000	-	-	50,794
Total Expenditures and Other Uses	21,406,400	20,909,746	20,713,397	20,410,718
<b>INCREASE (DECREASE) IN FUND BALANCE</b>	<b>\$ 735,422</b>	<b>\$ 551,563</b>	<b>\$ (292,660)</b>	<b>\$ 111,633</b>
<b>ENDING FUND BALANCE</b>	<b>\$ 4,540,356</b>	<b>\$ 3,804,934</b>	<b>\$ 3,253,371</b>	<b>\$ 3,546,031</b>
<b>AVAILABLE RESERVES<sup>2,3</sup></b>	<b>\$ 4,244,656</b>	<b>\$ 3,272,737</b>	<b>\$ 2,724,683</b>	<b>\$ 3,804,015</b>
<b>AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO</b>	<b>19.83%</b>	<b>15.65%</b>	<b>13.37%</b>	<b>18.64%</b>
<b>LONG-TERM DEBT</b>	<b>\$ 66,825,435</b>	<b>\$ 67,944,873</b>	<b>\$ 66,332,174</b>	<b>\$ 64,914,935</b>
<b>K-12 AVERAGE DAILY ATTENDANCE AT P-2</b>	<b>1,492</b>	<b>1,479</b>	<b>1,490</b>	<b>1,464</b>

The General Fund balance has increased by \$258,903 over the past two years. The fiscal year 2013-2014 budget projects an increase of \$735,422. For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo). The District has incurred two operating surpluses and one operating deficit in the past three years and anticipates incurring an operating surplus during the 2013-2014 fiscal year.

Total long-term obligations have increased by \$3,029,938 over the past two years.

Average daily attendance has decreased by 15 over the past two years. Additional growth of 13 ADA is anticipated during fiscal year 2013-2014.

<sup>1</sup> Budget 2014 is included for analytical purposes only and has not been subjected to audit.

<sup>2</sup> 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.

<sup>3</sup> On-behalf payments of \$593,838, \$537,802, and \$482,994, have been excluded from the actuals and the calculation of the available reserves percentage for fiscal years ending June 30, 2013, 2012, and 2011, respectively.

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

See accompanying note to supplementary information.

**HILLSBOROUGH CITY SCHOOL DISTRICT**

**NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2013**

	<b>Cafeteria Fund</b>	<b>Deferred Maintenance Fund</b>	<b>Retiree Benefits Special Reserve Fund</b>
<b>ASSETS</b>			
Deposits and investments	\$ 1,010	\$ 157,362	\$ 333,650
Receivables	908	240	509
<b>Total Assets</b>	<b>\$ 1,918</b>	<b>\$ 157,602</b>	<b>\$ 334,159</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Fund Balances:</b>			
Nonspendable	\$ 1,918	\$ -	\$ -
Restricted	-	157,602	334,159
<b>Total Fund Balances</b>	<b>1,918</b>	<b>157,602</b>	<b>334,159</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 1,918</b>	<b>\$ 157,602</b>	<b>\$ 334,159</b>

See accompanying note to supplementary information.

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<b>Capital Facilities Fund</b>	<b>Total Non Major Governmental Funds</b>
\$ 44,042	\$ 536,064
57	1,714
<u>\$ 44,099</u>	<u>\$ 537,778</u>
\$ 44,099	\$ 46,017
-	491,761
<u>44,099</u>	<u>537,778</u>
<u>\$ 44,099</u>	<u>\$ 537,778</u>

**HILLSBOROUGH CITY SCHOOL DISTRICT**

**NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2013**

	<b>Cafeteria Fund</b>	<b>Deferred Maintenance Fund</b>	<b>Retiree Benefit Special Reserve Fund</b>
<b>REVENUES</b>			
Other local sources	\$ 2,615	\$ 1,155	\$ 2,379
<b>EXPENDITURES</b>			
Current			
Pupil Services:			
Food services	2,611	-	-
Plant services	-	5,016	-
<b>Total Expenditures</b>	<u>2,611</u>	<u>5,016</u>	<u>-</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	4	(3,861)	2,379
<b>Other Financing Uses:</b>			
Transfers out	-	-	-
<b>NET CHANGE IN FUND BALANCES</b>	4	(3,861)	2,379
<b>Fund Balance - Beginning</b>	1,914	161,463	331,780
<b>Fund Balance - Ending</b>	<u>\$ 1,918</u>	<u>\$ 157,602</u>	<u>\$ 334,159</u>

See accompanying note to supplementary information.

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<b>Capital Facilities Fund</b>	<b>Total Nonmajor Governmental Funds</b>
\$ 71,221	\$ 77,370
-	2,611
-	5,016
-	7,627
71,221	69,743
(37,534)	(37,534)
33,687	32,209
10,412	505,569
<u>\$ 44,099</u>	<u>\$ 537,778</u>

# HILLSBOROUGH CITY SCHOOL DISTRICT

## NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2013

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### NOTE 1 - PURPOSE OF SCHEDULES

#### **Schedule of Expenditures of Federal Awards**

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

#### **Local Education Agency Organization Structure**

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

#### **Schedule of Average Daily Attendance (ADA)**

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

#### **Schedule of Instructional Time**

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

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

#### **Schedule of Financial Trends and Analysis**

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

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

The Non Major Governmental Funds Combining Balance Sheet and Combining Statement of Revenues, Expenditures and Changes in Fund Balances 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 Balances.

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***INDEPENDENT AUDITOR'S REPORTS***

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

Board of Trustees  
Hillsborough City School District  
Hillsborough, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Hillsborough City School District (the District) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Hillsborough City School District's basic financial statements, and have issued our report thereon dated December 15, 2013.

**Internal Control Over Financial Reporting**

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

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

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

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Hillsborough City School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of This Report**

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

Varrinck Trine Day + Co. LLP

Palo Alto, California  
December 15, 2013



## INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Trustees  
Hillsborough City School District  
Hillsborough, California

### Report on State Compliance

We have audited Hillsborough City School District's (District) compliance with the types of compliance requirements as identified in the *Standards and Procedures for Audit of California K-12 Local Educational Agencies 2012-2013* that could have a direct and material effect on each of the District's State government programs as noted below for the year ended June 30, 2013.

### Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its State's programs.

### Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the District's State programs based on our audit of the types of compliance requirements referred to above. 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 2012-2013*. These standards 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 the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of the District's compliance with those requirements.

### Basis for Qualified Opinion on Instructional Materials

As described in the accompanying schedule of findings and questioned costs, the District did not comply with requirements regarding Instructional Materials, see 2013-1. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to that program.

**Qualified Opinion**

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the District complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2013.

**Unmodified Opinion on Each of the Other Programs**

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, 2013, except as described in the Schedule of State Awards Findings and Questioned Costs section of the accompanying Schedule of Findings and Questioned Costs.

**Other Matters**

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	6	Yes
Teacher Certification and Misassignments	3	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	Not applicable
Continuation Education	10	Not applicable
Instructional Time:		
School Districts	6	Yes
County Offices of Education	3	Not applicable
Instructional Materials:		
General Requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	Not applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Juvenile Court Schools	8	Not applicable
Class Size Reduction Program (including in charter schools):		
General Requirements	7	Yes
Option One Classes	3	Yes
Option Two Classes	4	Not applicable
Districts or Charter Schools With Only One School Serving K-3	4	Not applicable
After School Education and Safety Program:		
General Requirements	4	Not applicable
After School	5	Not applicable
Before School	6	Not applicable
Charter Schools:		
Contemporaneous Records of Attendance	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	4	Not applicable

*Warriner Time Day + Co. LLP*

Palo Alto, California  
December 15, 2013

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*SCHEDULE OF FINDINGS AND QUESTIONED COSTS*

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# HILLSBOROUGH CITY SCHOOL DISTRICT

## SUMMARY OF AUDITOR'S RESULTS FOR THE YEAR ENDED JUNE 30, 2013

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### FINANCIAL STATEMENTS

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

### STATE AWARDS

Type of auditor's report issued on compliance for all programs:  
    Unmodified for all programs except for the Instructional Materials which was qualified.

**HILLSBOROUGH CITY SCHOOL DISTRICT**

**FINANCIAL STATEMENT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2013**

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None reported.

## HILLSBOROUGH CITY SCHOOL DISTRICT

### STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2013

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The following findings represent instances of noncompliance and/or questioned costs relating to State program laws and regulations. The findings have been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
70000	Instructional Material

#### 2013-1 Code 70000 – Instructional Material

##### **Criteria or Specific Requirements**

Pursuant to the provision of California Education Code Section 60119, the public hearing shall take place on or before the end of the eighth week from the first day pupils attend school for that year.

##### **Condition**

The public hearings took place on November 13, 2012, which was during the eleventh week from the first day of school.

##### **Questioned Costs**

None. (Total entitlement \$79,412 - Basic Aid reduction offset \$79,412 = Cash entitlement \$0)

##### **Context**

The condition noted above was identified during our examination of the District's state compliance of Instructional Material.

##### **Effect**

Unknown.

##### **Recommendation**

The District should hold public hearing within timeframe required by Education Code Section 60119.

##### **District Response**

The District will be more diligent in complying with the timing of the public hearing on the sufficiency of instructional materials. The District held the 2013-14 public hearing on October 16, 2013 which is within the eighth week requirement.

# HILLSBOROUGH CITY SCHOOL DISTRICT

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2013

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### **Financial Statement Findings**

None reported.

### **Federal Award Findings**

None reported.

### **State Award Findings**

None reported.