

**HILLSBOROUGH CITY
SCHOOL DISTRICT**

**ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
JUNE 30, 2014**

HILLSBOROUGH CITY SCHOOL DISTRICT

TABLE OF CONTENTS

JUNE 30, 2014

FINANCIAL SECTION

Independent Auditor's Report	2
Management's Discussion and Analysis	5
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Position	16
Statement of Activities	17
Fund Financial Statements	
Governmental Funds - Balance Sheet	19
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	21
Governmental Funds - Statement of Revenues, Expenditures, and Changes in Fund Balances	22
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	24
Fiduciary Fund - Statement of Net Position	26
Notes to Financial Statements	27

REQUIRED SUPPLEMENTARY INFORMATION

General Fund - Budgetary Comparison Schedule	53
Schedule of Other Postemployment Benefits (OPEB) Funding Progress	54

SUPPLEMENTARY INFORMATION

Schedule of Expenditures of Federal Awards	56
Local Education Agency Organization Structure	57
Schedule of Average Daily Attendance	58
Schedule of Instructional Time	59
Reconciliation Of Annual Financial And Budget Report With Audited Financial Statements	60
Schedule of Financial Trends and Analysis	61
Combining Statements – Non-Major Governmental Funds	
Combining Balance Sheet	62
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	64
Note to Supplementary Information	66

INDEPENDENT AUDITOR'S REPORTS

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	68
Report on State Compliance	70

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of Auditor's Results	73
Financial Statement Findings	74
State Awards Findings and Questioned Costs	75
Summary Schedule of Prior Audit Findings	76

FINANCIAL SECTION



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, the Hillsborough Recreation, a discrete component unit, 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, 2014, 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 did not audit the financial statements of the Hillsborough Schools Foundation, a discrete component unit. Those financial statements were audited by other auditors whose report dated November 5, 2014 expressed unmodified opinion on those financial statements.

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 2013-2014*, 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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Hillsborough City School District and Hillsborough Recreation, a discrete component unit, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 18 to the financial statements, the District has adopted the provision of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which has resulted in a restatement of beginning net position in the government-wide financial statement. The impact of the restatement is a reduction in beginning net position of \$350,689. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

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 other supplementary information listed on the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary information as listed in the table of contents are 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 12, 2014, 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.

A handwritten signature in black ink that reads "Davsinek, Thine, Day & Co., LLP". The signature is written in a cursive, flowing style.

Palo Alto, California
December 12, 2014

HILLSBOROUGH CITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

This section of the Hillsborough City School District's 2013-2014 annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2014. 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 2013 California Basic Educational Data System (CBEDS) count, the student population was 977 in grades Transitional Kindergarten-5 and 551 in grades 6-8, for a total of 1,528. Students are housed in four schools: North, South, and West Elementary Schools and William H. Crocker Middle School. Of the student population, 27.95% were Asian, 3.01% Hispanic, 0.13% Pacific Islander, 0.13% African-American, 0.33% American Indian or Alaskan Native, 63.87% White, 4.25% had multiple designations, and 0.33% declined to state.

District studies of Hillsborough graduates indicate that virtually 100% of the students graduate from high school and are expected to graduate from college. The District does not have a drop-out problem.

Over the years, all Hillsborough Schools have been cited numerous times as California Distinguished Schools. Most recently, both North and West Schools received recognition in 2014, South School in 2012, and Crocker School in 2011. 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 District have been recognized by the county, state, nation, and internationally for excellence in education.

HILLSBOROUGH CITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014

Beginning in 2013-14, State testing to assess student academic progress moved to a new tool, the California Assessment of Student Performance and Progress (CAASPP) System. The CAASPP replaces the Standardized Testing and Reporting (STAR) Program of prior years. Field testing was conducted using the Smarter Balanced Summative Assessments, a modern, technology-based program, with students performing the assessments on computers. This practice run did not produce any test results but allowed students to experience computer-based testing and new types of questions. It also allowed the District to assess its preparedness in meeting the technological demands of computer-based testing.

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.

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.

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 upgrade fire, life, safety and accessibility standards to become compliant with the requirements of the Americans with Disabilities Act at 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.

HILLSBOROUGH CITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

FINANCIAL HIGHLIGHTS

A school district is basic aid, more recently referred to as a community funded district, when the assessed valuation of the district increases to the point where the local property taxes exceed the State's calculated Local Control Funding Formula (LCFF) 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 2013-14, the District experienced growth in secured assessed valuation of 6.64% receiving \$14,316,397 in local property taxes, \$6,379,348 over, or "in excess" of, total transition entitlement calculated by the LCFF. This primary source funded 63.26% 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. For the first time in 2010-11, change in the California CPI was negative resulting in no growth in property tax revenue over the prior year. The following year, the District experienced another year of no growth. 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.

Since the start of the State's fiscal crisis beginning in 2008-09, the statutory COLAs for revenue limit have been unfunded and defunded. 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. In 2013-14, to correct for historical inequities and increase flexibility, the State abandoned the revenue limit calculation and migrated to the LCFF to fund education. The revenue limit and most categorical program funding were consolidated into one revenue stream and distributed as part of the LCFF entitlement. A hold harmless provision guarantees districts no less than the total received from the State in the 2012-13 fiscal year. Basic aid districts would receive their categorical allocation net of the basic aid fair share reduction equal to 8.92% of the 2012-13 P2 total base revenue limit subject to deficit. Until the State achieves LCFF target funding (where districts are fully funded), basic aid districts will continue to receive only the minimum amount guaranteed by LCFF. For the District, this amounts to \$172,044 annually.

Proposition 30, the Schools and Local Public Safety Protection Act of 2012, temporarily increases the sales tax rate and the personal income tax rates for upper income taxpayers. Revenues are deposited into the Education Protection Account (EPA) and districts will receive an entitlement of \$200 per actual daily attendance (ADA) annually through 2018-19. Another source of funding provided by the State, but only for 2013-14, was Common Core State Standards Implementation Funds. The District received \$306,066 to fund professional development, instructional materials, and technology to implement Common Core instruction.

HILLSBOROUGH CITY SCHOOL DISTRICT

MANAGEMENT’S DISCUSSION AND ANALYSIS

JUNE 30, 2014

Another significant source of funding for the District is through the fund raising efforts of the Hillsborough Schools Foundation (HSF). In 2013-14, the District received \$3,500,000 in support of the programs offered to the children of Hillsborough. In addition to this generous local support, the District received \$2,062,667 from a parcel tax.

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. These actions over the years have kept the District in a healthy fiscal condition. In 2013-14, the economy is finally on a slow road to recovery. The District was able to give employees an increase in total compensation, the first since 2008-09. Additional expenditures were made in the areas of professional development, technology, and instructional materials with additional State funds.

Districts are now required to complete a Local Control and Accountability Plan (LCAP) which describes how the State’s eight areas of priorities will be addressed in achieving annual goals. The LCAP must be aligned to the District’s budget.

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.

HILLSBOROUGH CITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

- Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong. Fiduciary fund activity is excluded from the government-wide financial statements.

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

Government-wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net 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 explain the relationship (or differences) between them.

HILLSBOROUGH CITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014

- 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.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

The District's government-wide combined net position was (\$2,874,263) as of June 30, 2014, primarily due to recognition of depreciation on capital assets. This was a decrease from the year before. This table summarizes and compares the District's net position to the prior year.

Hillsborough City School District			
Net Position			
(in thousands of dollars)			
	Total		
	Government-Wide		Total
	2014	2013	Changes
Current and other assets	\$ 9,639.5	\$ 8,786.7	\$ 852.8
Capital assets	58,400.0	60,656.8	(2,256.8)
Total Assets	68,039.5	69,443.5	(1,404.0)
Deferred Outflows of Reserves	93.3	100.0	(6.7)
Current liabilities	1,152.9	973.5	179.4
Long-term debt	69,854.2	68,044.9	1,809.3
Total Liabilities	71,007.1	69,018.4	1,988.7
Net Position			
Net investment in capital assets	(10,141.9)	(6,328.5)	(3,813.4)
Restricted	1,505.5	1,642.4	(136.9)
Unrestricted	5,762.1	5,211.2	550.9
Total Net Position	\$ (2,874.3)	\$ 525.1	\$ (3,399.4)

HILLSBOROUGH CITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

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 \$3,048,609. The table below summarizes and compares the changes in net position to the prior year.

Hillsborough City School District			
Changes in Statement of Activities			
(in thousands of dollars)			
	Total		
	Government-Wide		
	2014	2013	Total
			Changes
Revenues			
Program revenues			
Charges for services	\$ 297.1	\$ 257.8	\$ 39.3
Operating grants and contributions	780.0	572.1	207.9
Property taxes for general purposes	15,093.1	14,120.8	972.3
Other taxes	4,188.0	3,949.1	238.9
Other general revenues	5,874.9	5,467.1	407.8
Total Revenues	<u>26,233.1</u>	<u>24,366.9</u>	<u>1,866.2</u>
Expenses			
Instruction related	20,551.4	19,505.6	1,045.8
Student support services	828.5	805.5	23.0
Administration	1,733.0	1,501.1	231.9
Maintenance and operations	2,232.6	1,980.7	251.9
Other	3,936.2	3,620.2	316.0
Total Expenses	<u>29,281.7</u>	<u>27,413.1</u>	<u>1,868.6</u>
Change in Net Position	<u>\$ (3,048.6)</u>	<u>\$ (3,046.2)</u>	<u>\$ (2.4)</u>

Expenses related to educating and caring for students accounted for \$21,379.90 of total expenses, an increase of 5.3% over the prior year. Expenditure commitments consumed all revenues received as well as all of beginning net position.

HILLSBOROUGH CITY SCHOOL DISTRICT

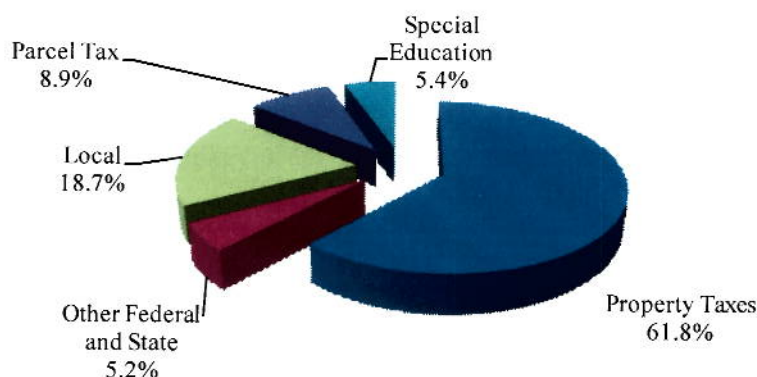
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

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 2013-2014 increased 8.0% from the prior year to \$23,170,204 (not including on behalf payments of \$635,775 by the State to CalSTRS). Revenues increased \$902,638 from local property taxes; \$103,346 from the parcel tax; \$8,465 from Special Education funding; \$306,066 from Common Core Implementation Funds; \$100,000 from Prop 39 Clean Energy Jobs Act; and \$259,452 from various other local sources. Locally generated revenues amounted to 90.3% of the District's total revenues.

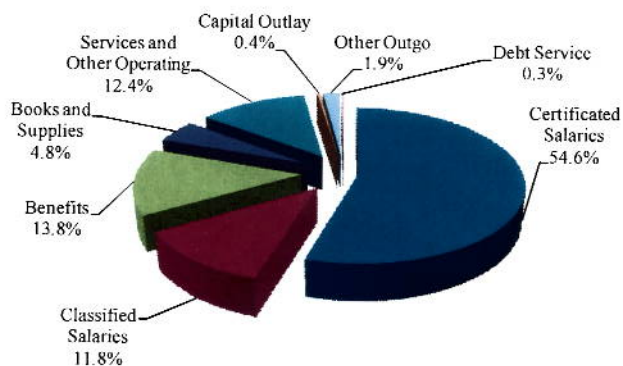
General Fund Revenues by Object
(Excluded Special Reserve Fund for Other Than Capital Outlay and On-Behalf Payment)



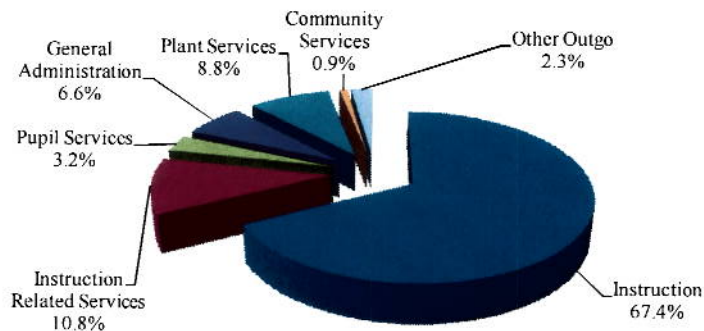
Expenditures increased 8.2% over the prior year. As is common with virtually all school districts, the majority of expenditures in the General Fund were for salaries and benefits. Of the \$22,631,157 (not including on behalf payments of \$635,775 by the State to CalSTRS) expended during 2013-2014, 80.2% 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 78.2% of total general fund expenditures on instruction and instruction-related activities.

General Fund Expenditures by Object
(Excluded Special Reserve Fund for Other Than Capital Outlay and On-Behalf Payment)



General Fund Expenditures by Function
(Excluded Special Reserve Fund for Other Than Capital Outlay and On-Behalf Payment)



HILLSBOROUGH CITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014

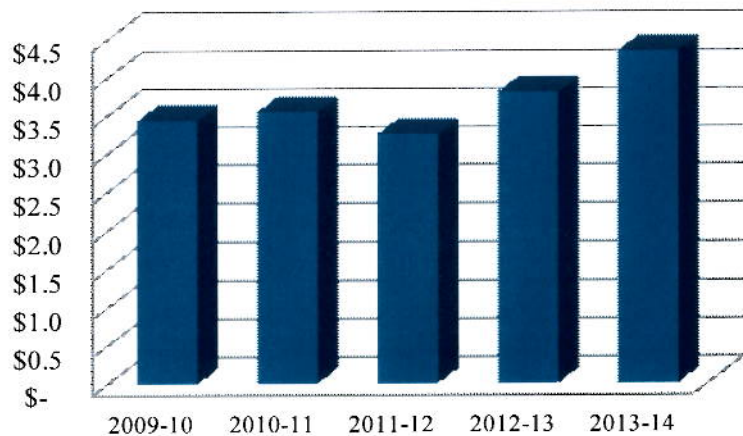
Total revenues exceeded total expenditures in the General Fund, excluding the Special Reserve Fund for Other Than Capital Outlay, by \$539,047. This gain increased the ending fund balance of the current year to \$4,343,981. Of this amount, \$51,203 was nonspendable; \$353,288 was restricted; \$895,350 was assigned; and \$3,044,140 was unassigned. The District's unassigned ending balance amounted to 13.5% of total General Fund expenditures and other uses.

General Fund Budgetary Highlights

The Adopted Budget for the General Fund anticipated an increase in the ending balance of \$735,422. The District ended the year with an increase of \$539,047. 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. 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 State funding for Common Core implementation and Prop 39 Clean Energy Jobs Act were included at interims when they became known; expenditures were adjusted to account for salary settlements for all employees and 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 Adopted Budget for 2014-15 projects growth in secured property taxes at 4.0%. Local property taxes are estimated to be \$14,824,000. The State will be in the second year of LCFF where funding remains at \$172,044. State funding continues to be enhanced by an additional \$298,400 from the EPA. Negotiations for compensation were opened but not settled at budget adoption, the budget includes the cost of step and column only. The District will continue implementation of HCSD Forward by further investment in the Technology Plan including one-to-one devices for grades 6 through 8, introducing Mandarin instruction at the middle school, and returning Spanish instruction at the elementary schools. The District will be conscientiously expending a portion of the unappropriated General Fund ending balance to carry out these goals.

General Fund Ending Fund Balances
(In millions)



HILLSBOROUGH CITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Hillsborough City School District Capital Assets at Year-End (in thousands of dollars)			
	Total Government-Wide		Total Changes
	2014	2013	
Cost:			
Land	\$ 228.7	\$ 228.7	\$ -
Work in progress	196.1	31.7	164.4
Improvement of sites	1,805.1	1,690.7	114
Buildings	75,525.8	75,506.1	19.8
Equipment	2,263.5	2,243.4	20.1
Total Capital Assets	80,019.2	79,700.6	318.6
Accumulated Depreciation:			
Improvement of sites	1,063.0	976.6	86.3
Buildings	19,126.6	16,765.5	2,361.1
Equipment	1,429.6	1,301.6	127.9
Total Accumulated Depreciation	21,619.2	19,043.8	2,575.4
Net Book Value:			
Land	228.7	228.7	-
Work in progress	196.1	31.7	164.4
Improvement of sites	742.1	714.1	28.0
Buildings	56,399.2	58,740.6	(2,341.4)
Equipment	833.9	941.7	(107.8)
	\$ 58,400.0	\$ 60,656.8	\$ (2,256.8)

By year end, the District had invested \$80.0 million in a wide range of capital assets, including renovated and newly constructed school buildings; field, playground, and parking lot improvements; computer, classroom, and other operating equipment and furniture; and maintenance and grounds vehicles. The additional \$318,580 from the current year resulted from the installation of a parking lot at the District Office, addition of an air conditioning unit in the Crocker School server room, repair to the playground surface at South School and construction in progress on replacement of the West Wing. The new West Wing will be completed during Summer 2014 and occupied at the start of the 2014-15 school year. Net book value (the amount of total assets after applying depreciation) decreased \$2,256,795 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, 2014

Long-Term Debt

Hillsborough City School District			
Outstanding Long-Term Debt at Year-End			
(in thousands of dollars)			
	Total		
	Government-Wide		Total
	2014	2013	Changes
Long-Term Debt Outstanding:			
General obligation bonds	\$ 68,537.5	\$ 66,935.4	\$ 1,602.1
Capitalized leases	97.8	149.9	(52.1)
Accumulated vacation	132.5	81.2	51.3
Sick leave bank	24.8	24.8	-
Other postemployment benefits	1,061.7	853.7	208.0
	<u>\$ 69,854.3</u>	<u>\$ 68,045.0</u>	<u>\$ 1,809.3</u>

At June 30, 2014, the District had \$67,358,575 in general obligation bonds, net of \$1,178,930 bond premium, and \$1,316,751 in other long-term debt outstanding. Current year accretion of the Capital Appreciation Bonds amounted to \$2,570,167. The District has thirty years to recognize its Unfunded Actuarial Accrued Liability (UAAL) for Other Post Employment Benefits. This is the sixth 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 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, 19.6% 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, 2014

		Discrete Component Units	
	Governmental	Hillsborough	Hillsborough
	Activities	Schools	Recreation
		Foundation	
ASSETS			
Deposits and investments	\$ 9,111,628	\$ 12,084,468	\$ 2,211,624
Receivables	481,700	227,604	32,897
Prepaid expenses	46,203	11,576	574
Capital assets not being depreciated	424,777	-	-
Capital assets being depreciated	79,594,373	23,473	76,202
Less: Accumulated depreciation	(21,619,166)	(19,215)	(24,522)
Total Assets	68,039,515	12,327,906	2,296,775
DEFERRED OUTFLOWS OF RESOURCES			
Loss on refunding	93,330	-	-
Total Deferred Outflows of Resources	93,330	-	-
LIABILITIES			
Accounts payable	737,811	3,644,563	92,696
Interest payable	355,521	-	-
Unearned revenue	59,520	-	520,630
Current portion of long-term obligations	1,320,147	-	-
Noncurrent portion of long-term obligations	68,534,109	345,000	-
Total Liabilities	71,007,108	3,989,563	613,326
NET POSITION			
Net investment in capital assets	(10,038,963)	-	51,680
Restricted for:			
Debt service	1,394,403	-	-
Capital projects	103,683	-	-
Education programs	353,288	-	-
Food programs	3,649	-	-
Other restrictions	-	3,498,022	-
Unrestricted	5,309,677	4,840,321	1,631,769
Total Net Position	\$ (2,874,263)	\$ 8,338,343	\$ 1,683,449

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

HILLSBOROUGH CITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2014

Functions/Programs	Expenses	Program Revenues	
		Charges for Services and Sales	Operating Grants and Contributions
Governmental Activities:			
Instruction	\$ 17,808,009	\$ 221,390	\$ 648,553
Instruction-related activities:			
Supervision of instruction	1,083,108	16,917	35,488
Instructional library, media, and technology	223,826	-	-
School site administration	1,436,421	-	30,877
Pupil services:			
Home-to-school transportation	129,186	5,977	46
Food services	2,599	-	-
All other pupil services	696,666	1,474	2,023
General administration:			
Data processing	337,706	-	-
All other general administration	1,395,296	-	-
Plant services	2,229,624	154	211
Facility acquisition and construction	3,018	-	-
Community services	218,716	-	-
Interest on long-term obligations	3,618,431	-	-
Other outgo	99,051	51,154	62,829
Total Governmental-Type Activities	\$ 29,281,657	\$ 297,066	\$ 780,027

General revenues and subventions:

Property taxes, levied for general purposes
 Property taxes, levied for debt service
 Taxes levied for other specific purposes
 Federal and state aid not restricted to specific purposes
 Interest and investment earnings
 Miscellaneous
 Subtotal, General Revenues
 Change in Net Position
 Net Position - Beginning, as restated
 Net Position - Ending

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

Net Revenues, Expenses and Changes in Net Position			
Primary Governmental Activities	Discrete Component Units		
	Hillsborough Schools Foundation	Hillsborough Recreation	
\$ (16,938,066)	\$ -	\$ -	
(1,030,703)	-	-	
(223,826)	-	-	
(1,405,544)	-	-	
(123,163)	-	-	
(2,599)	-	-	
(693,169)	-	-	
(337,706)	-	-	
(1,395,296)	(489,877)	(288,839)	
(2,229,259)	-	-	
(3,018)	-	-	
(218,716)	-	-	
(3,618,431)	-	-	
14,932	(3,601,900)	(1,587,551)	
(28,204,564)	(4,091,777)	(1,876,390)	
15,093,061	-	-	
2,125,299	-	-	
2,062,667	-	-	
716,763	-	-	
144,597	-	7,249	
5,013,568	5,397,642	2,087,324	
25,155,955	5,397,642	2,094,573	
(3,048,609)	1,305,865	218,183	
174,346	7,032,478	1,465,266	
\$ (2,874,263)	\$ 8,338,343	\$ 1,683,449	

HILLSBOROUGH CITY SCHOOL DISTRICT

GOVERNMENTAL FUNDS BALANCE SHEET JUNE 30, 2014

	General Fund	Special Reserve Capital Outlay Fund	Bond Interest and Redemption Fund
ASSETS			
Deposits and investments	\$ 4,985,704	\$ 1,374,634	\$ 1,747,691
Receivables	474,773	2,085	2,233
Prepaid expenditures	46,203	-	-
Total Assets	\$ 5,506,680	\$ 1,376,719	\$ 1,749,924
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 630,834	\$ 103,202	\$ -
Unearned revenue	1,187	58,333	-
Total Liabilities	632,021	161,535	-
Fund Balances:			
Nonspendable	51,203	-	-
Restricted	353,288	-	1,749,924
Committed	-	-	-
Assigned	895,350	1,215,184	-
Unassigned	3,574,818	-	-
Total Fund Balances	4,874,659	1,215,184	1,749,924
Total Liabilities and Fund Balances	\$ 5,506,680	\$ 1,376,719	\$ 1,749,924

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

Non-Major Governmental Funds	Total Governmental Funds
\$ 1,003,599	\$ 9,111,628
2,609	481,700
-	46,203
<u>\$ 1,006,208</u>	<u>\$ 9,639,531</u>
\$ 3,775	\$ 737,811
-	59,520
<u>3,775</u>	<u>797,331</u>
-	51,203
210,310	2,313,522
792,123	792,123
-	2,110,534
-	3,574,818
<u>1,002,433</u>	<u>8,842,200</u>
<u>\$ 1,006,208</u>	<u>\$ 9,639,531</u>

HILLSBOROUGH CITY SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION JUNE 30, 2014

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

Total Fund Balance - Governmental Funds **\$ 8,842,200**

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	\$ 80,019,150	
Accumulated depreciation is	<u>(21,619,166)</u>	
Net Capital Assets		58,399,984

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. (355,521)

Costs resulting from advance refunding are expensed in the
governmental funds. On the government-wide statements, they are
deferred and amortized over the life of the related debt. 93,330

Long-term liabilities at year end consist of:

Bonds payable, including premium	(68,537,505)	
Capital leases payable	(97,750)	
Compensated absences (vacations)	(157,336)	
Other post employment benefit obligation	<u>(1,061,665)</u>	
Total Long-Term Liabilities		(69,854,256)

Total Net Position - Governmental Activities **\$ (2,874,263)**

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, 2014

	General Fund	Special Reserve Capital Outlay Fund	Bond Interest and Redemption Fund
REVENUES			
Local control funding formula	\$ 15,562,743	\$ -	\$ -
Federal sources	286,292	-	-
Other state sources	1,345,304	-	5,466
Other local sources	6,583,223	127,303	2,145,409
Total Revenues	23,777,562	127,303	2,150,875
EXPENDITURES			
Current			
Instruction	15,888,033	-	-
Instruction-related activities:			
Supervision of instruction	962,009	-	-
Instructional library, media and technology	198,801	-	-
School site administration	1,275,819	-	-
Pupil Services:			
Home-to-school transportation	114,742	-	-
Food services	-	-	-
All other pupil services	618,774	-	-
General administration:			
Data processing	299,948	-	-
All other general administration	1,193,656	-	-
Plant services	1,906,104	28,000	-
Facility acquisition and construction	87,671	237,539	-
Community services	194,262	-	-
Other outgo	99,051	-	-
Debt service:			
Principal	52,107	-	890,000
Interest and other	45,955	-	1,084,681
Total Expenditures	22,936,932	265,539	1,974,681
Excess (Deficiency) of Revenues Over Expenditures	840,630	(138,236)	176,194
Other Financing Sources (Uses):			
Transfers in	44,500	-	-
Transfers out	(330,000)	(44,500)	-
Net Financing Sources (Uses)	(285,500)	(44,500)	-
NET CHANGE IN FUND BALANCES	555,130	(182,736)	176,194
Fund Balance - Beginning	4,319,529	1,397,920	1,573,730
Fund Balance - Ending	\$ 4,874,659	\$ 1,215,184	\$ 1,749,924

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

Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ 15,562,743
-	286,292
-	1,350,770
177,308	9,033,243
177,308	26,233,048
-	15,888,033
-	962,009
-	198,801
-	1,275,819
-	114,742
2,309	2,309
-	618,774
-	299,948
-	1,193,656
40,344	1,974,448
-	325,210
-	194,262
-	99,051
-	942,107
-	1,130,636
42,653	25,219,805
134,655	1,013,243
330,000	374,500
-	(374,500)
330,000	-
464,655	1,013,243
537,778	7,828,957
\$ 1,002,433	\$ 8,842,200

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, 2014

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

Total Net Change in Fund Balances - Governmental Funds **\$ 1,013,243**

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	\$ (2,575,375)	
Capital outlays	<u>318,580</u>	
Net Expense Adjustment		(2,256,795)

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 earned was more than the amounts used by \$51,381. (51,381)

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. 52,107

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. 890,000

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. (2,570,167)

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	<u>(6,667)</u>	
Net Amortization Adjustment		71,376

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, 2014

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.

\$ 10,996

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.

(207,988)

Change in Net Position of Governmental Activities

\$ (3,048,609)

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

HILLSBOROUGH CITY SCHOOL DISTRICT

FIDUCIARY FUND

STATEMENT OF NET POSITION

JUNE 30, 2014

	<u>Agency Funds</u>
ASSETS	
Deposits and investments	\$ 115,167
Total Assets	<u><u>\$ 115,167</u></u>
 LIABILITIES	
Due to student groups	\$ 115,167
Total Liabilities	<u><u>\$ 115,167</u></u>

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

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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 generally accepted accounting principles.

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 a component unit 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, 2014

Major Governmental Funds

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

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

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

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

Non-Major Governmental Funds

Special Revenue Funds The Special Revenue funds are 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.

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).

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.

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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.

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.

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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.

Unearned Revenue

Unearned 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 unearned revenue is removed from the balance sheet and revenue is recognized.

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

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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, 2014, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

Restricted Assets

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

Prepaid Expenditures

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

Capital Assets and Depreciation

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

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

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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.

Separate sick leave banks for catastrophic illness have been established for the certificated, classified, and confidential groups. Sick leave days are donated annually by HTA and CSEA employees to their respective banks at their daily rates. Confidential employees will be granted up to five additional sick leave days for catastrophic illness if needed.

Accrued Liabilities and Long-Term Obligations

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

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

Deferred Issuance Costs, Premiums and Discounts

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

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

In governmental fund financial statements, bond premiums and discounts, as well as debt issuance costs are recognized in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuance are also reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds, are reported as debt service expenditures.

Fund Balances – Governmental Funds

As of June 30, 2014, 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.

Spending Order Policy

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the governing board has provided otherwise in its commitment or assignment actions.

Minimum Fund Balance Policy

On June 22, 2011, the governing board adopted a reserved for economic uncertainties policy for the General Fund in order to protect the district against revenue shortfalls or unpredicted on-time expenditures. The policy requires a Reserve for Economic Uncertainties consisting of unassigned amounts equal to no less than six percent of General Fund expenditures and other financing uses.

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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.

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.

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Changes in Accounting Principles

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.

The District has implemented the provisions of this Statement for the year ended June 30, 2014.

As the result of implementing GASB statement No. 65, the District has restated the beginning net position in the government-wide Statement of Net Position, effectively decreasing net position as of July 1, 2013, by \$350,689. The decrease results from no longer deferring and amortizing bond issuance costs.

New Accounting Pronouncements

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

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date — An Amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

The provisions of this Statement are required to be applied simultaneously with the provisions of Statement No. 68.

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2014, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 9,111,628
Fiduciary funds	115,167
Total Deposits and Investments	<u>\$ 9,226,795</u>

Deposits and investments as of June 30, 2014, consist of the following:

Cash on hand and in banks	\$ 115,167
Cash in revolving	5,000
Investments	9,106,628
Total Deposits and Investments	<u>\$ 9,226,795</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, 2014

General Authorizations

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

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
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 does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing 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, 2014, was \$8,664,102 and the weighted average of the pool was 1.67 years. The fair value of the deposits with the state investment Pool at June 30, 2014, was \$1,757 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, 2014.

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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, 2014, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Special Reserve Capital Outlay Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
Federal Government					
Categorical aid	\$ 47,286	\$ -	\$ -	\$ -	\$ 47,286
State Government					
Apportionment	188,681	-	-	-	188,681
Categorical aid	160,168	-	-	-	160,168
Lottery	48,762	-	-	-	48,762
Local Government					
Interest	9,955	2,085	2,233	1,517	15,790
Other Local Sources	19,921	-	-	1,092	21,013
Total	<u>\$ 474,773</u>	<u>\$ 2,085</u>	<u>\$ 2,233</u>	<u>\$ 2,609</u>	<u>\$ 481,700</u>

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2014, was as follows:

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 228,711	\$ -	\$ -	\$ 228,711
Construction in Progress	31,692	318,580	154,206	196,066
Total Capital Assets Not Being Depreciated	260,403	318,580	154,206	424,777
Capital Assets Being Depreciated:				
Land Improvements	1,690,743	114,334	-	1,805,077.00
Buildings and Improvements	75,506,057	19,780	-	75,525,837
Furniture and Equipment	2,243,367	20,092	-	2,263,459
Total Capital Assets Being Depreciated	79,440,167	154,206	-	79,594,373
Total Capital Assets	79,700,570	472,786	154,206	80,019,150
Less Accumulated Depreciation:				
Land Improvements	976,644	86,318	-	1,062,962
Buildings and Improvements	16,765,508	2,361,129	-	19,126,637
Furniture and Equipment	1,301,639	127,928	-	1,429,567
Total Accumulated Depreciation	19,043,791	2,575,375	-	21,619,166
Governmental Activities Capital Assets, Net	\$ 60,656,779	\$ (2,102,589)	\$ 154,206	\$ 58,399,984

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

Governmental Activities	
Instruction	\$ 1,778,434
Supervision of instruction	112,171
Instructional library, media, and technology	23,180
School administration	148,762
Pupil transportation	13,379
Food services	269
Other pupil services	72,150
Community services	22,651
Other general administration	139,182
Data processing services	34,974
Plant services	230,223
Total Depreciation Expense	\$ 2,575,375

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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.

There were no interfund receivable and payable balances as of June 30, 2014.

Operating Transfers

Interfund transfers for the year ended June 30, 2014, consisted of the following:

	Transfer In		
	General Fund	Non-Major Funds	Total
Transfer Out General Fund	\$ -	\$ 330,000	\$ 330,000
Special Reserve - Capital Project Fund	44,500	-	44,500
Total	<u>\$ 44,500</u>	<u>\$ 330,000</u>	<u>\$ 374,500</u>

General Fund transferred to Retiree Benefits Fund for future benefit contribution.	\$ 330,000
Special Reserve-Capital Fund to General Fund to cover costs of highspeed internet service.	44,500
Total	<u>\$ 374,500</u>

NOTE 6 - DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources is a consumption of net position by the District that is applicable to a future reporting period. For governmental activities, the negative net investment in capital assets amount of \$10,038,963 includes the effect of deferring the recognition of loss from advance refunding. The \$93,330 balance of the deferred outflow of resources at June 30, 2014 will be recognized as an expense and as a decrease in net position over the remaining life of related bonds.

The changes in the District's deferred outflow of resources during the year consisted of the following:

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
Defeasance costs	<u>\$ 99,997</u>	<u>\$ -</u>	<u>\$ 6,667</u>	<u>\$ 93,330</u>

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2014, consisted of the following:

	General Fund	Special Reserve Capital Outlay Fund	Non-Major Governmental Funds	Total
Vendor payables	\$ 433,023	\$ 103,202	\$ 3,775	\$ 540,000
Salaries and benefits	197,811	-	-	197,811
Total	<u>\$ 630,834</u>	<u>\$ 103,202</u>	<u>\$ 3,775</u>	<u>\$ 737,811</u>

NOTE 8 - UNEARNED REVENUE

Unearned revenue at June 30, 2014, consists of the following:

	General Fund	Special Reserve Capital Outlay Fund	Total
State categorical aid	\$ 1,187	\$ -	\$ 1,187
Other local	-	58,333	58,333
Total	<u>\$ 1,187</u>	<u>\$ 58,333</u>	<u>\$ 59,520</u>

NOTE 9 - TAX AND REVENUE ANTICIPATION NOTES (TRANS)

On July 15, 2013, the District issued \$1,515,000 of Tax and Revenue Anticipation Notes bearing interest at two percent. The notes were issued to supplement cash flows. Interest and principal were due and payable on June 2, 2014. By April 30, 2014, 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.

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

NOTE 10 - LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014	Due in One Year
General obligation bonds	\$ 65,678,408	\$ 2,570,167	\$ 890,000	\$ 67,358,575	\$ 1,030,000
Bond premium	1,256,973	-	78,043	1,178,930	78,043
Compensated absences	105,955	51,381	-	157,336	157,336
Capital leases	149,857	-	52,107	97,750	54,768
OPEB	853,677	207,988	-	1,061,665	-
Total	<u>\$ 68,044,870</u>	<u>\$ 2,829,536</u>	<u>\$ 1,020,150</u>	<u>\$ 69,854,256</u>	<u>\$ 1,320,147</u>

Payments on the general obligation bonds are made by the Bond Interest and Redemption fund with local revenues. Payments on the capital leases and the Other Postemployment Benefits (OPEB) are made by the General fund. Compensated absences will be paid by the fund for which the employee worked.

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding June 30, 2013	Accretion	Redeemed	Bonds Outstanding June 30, 2014
08/10/06	09/01/22	4.25%-5.00%	\$ 16,490,000	\$ 13,525,000	\$ -	\$ 675,000	\$ 12,850,000
08/10/06	09/01/31	4.74%-4.88%	12,011,422	16,772,978	818,737	-	17,591,715
01/13/11	09/01/44	2.00%-6.25%	3,020,000	3,010,000	-	10,000	3,000,000
01/13/11	09/01/45	2.35%-7.30%	19,660,012	23,655,430	1,751,430	-	25,406,860
05/09/12	09/01/27	0.20%-2.57%	8,850,000	8,715,000	-	205,000	8,510,000
			Total	<u>\$ 65,678,408</u>	<u>\$ 2,570,167</u>	<u>\$ 890,000</u>	<u>\$ 67,358,575</u>

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

Debt Service Requirements to Maturity

The bonds mature through 2046 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
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	1,805,634	851,141	2,656,775
2020-2024	11,799,881	4,326,344	16,126,225
2025-2029	10,251,659	12,332,066	22,583,725
2030-2034	8,125,935	23,941,565	32,067,500
2035-2039	7,204,844	36,737,656	43,942,500
2040-2044	6,884,609	53,337,891	60,222,500
2045-2046	4,750,588	18,218,162	22,968,750
Total	<u>56,031,431</u>	<u>\$ 153,684,538</u>	<u>\$ 209,715,969</u>
Accretion	<u>11,327,144</u>		
Total	<u>\$ 67,358,575</u>		

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2014, amounted to \$157,336.

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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 and West Copiers	Crocker and Small West Copiers	North Copier	Total
Balance, July 1, 2013	\$ 82,476	\$ 28,575	\$ 50,268	\$ 161,319
Deletions	34,128	7,620	16,756	58,504
Balance, June 30, 2014	<u>\$ 48,348</u>	<u>\$ 20,955</u>	<u>\$ 33,512</u>	<u>\$ 102,815</u>

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2015	\$ 58,504
2016	38,596
2017	5,715
Total	102,815
Less: Amount Representing Interest	(5,065)
Present Value of Minimum Lease Payments	<u>\$ 97,750</u>

Other Postemployment Benefits (OPEB) Obligation

The District's annual required contribution for the year ended June 30, 2014, was \$304,723, and contributions made by the District during the year were \$139,419. Interest on the net OPEB obligation were \$42,684, which resulted in an increase to the net OPEB obligation of \$207,988. As of June 30, 2014, the net OPEB obligation was \$1,061,665. See Note 12 for additional information regarding the OPEB obligation and the postemployment benefits plan.

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 11 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Special Reserve Capital Outlay Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
Nonspendable					
Revolving cash	\$ 5,000	\$ -	\$ -	\$ -	\$ 5,000
Prepaid expenditures	46,203	-	-	-	46,203
Total Nonspendable	51,203	-	-	-	51,203
Restricted					
Educational programs	353,288	-	-	-	353,288
Food programs	-	-	-	3,649	3,649
Capital projects	-	-	-	206,661	206,661
Debt services	-	-	1,749,924	-	1,749,924
Total Restricted	353,288	-	1,749,924	210,310	2,313,522
Committed					
Deferred maintenance	-	-	-	124,924	124,924
Retiree benefits	-	-	-	667,199	667,199
Total Committed	-	-	-	792,123	792,123
Assigned					
Capital projects	-	1,215,184	-	-	1,215,184
Program carryover	895,350	-	-	-	895,350
Total Assigned	895,350	1,215,184	-	-	2,110,534
Unassigned					
Reserve for economic uncertainties	1,888,548	-	-	-	1,888,548
Unassigned	1,686,270	-	-	-	1,686,270
Total Unassigned	3,574,818	-	-	-	3,574,818
Total	\$ 4,874,659	\$ 1,215,184	\$ 1,749,924	\$ 1,002,433	\$ 8,842,200

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 12 - 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 179 active plan members and 60 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 2013-2014, the District contributed \$139,419 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 obligation		42,684
Annual OPEB cost (expense)		<u>347,407</u>
Contributions made		<u>(139,419)</u>
Increase in net OPEB obligation		207,988
Net OPEB obligation, beginning of year		853,677
Net OPEB obligation, end of year	\$	<u><u>1,061,665</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
2014	\$ 347,407	\$ 139,419	40%	\$ 1,061,665
2013	336,783	124,313	37%	853,677
2012	287,043	116,002	40%	641,207

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Funded Status and Funding Progress

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Early Age Normal (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
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 13 - 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, 2014, 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, 2014

Workers' Compensation

For fiscal year 2014, 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 14 - 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. As a result of the Public Employee Pension Reform Act of 2013 (PEPRA), changes have been made to the defined benefit pension plan effective January 1, 2013. 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, 2014

Funding Policy

Due to the implementation of the Public Employee Pension Reform Act of 2013 (PEPRA), new members must pay at least 50 percent of the normal costs of the plan, which can fluctuate from year to year. For 2013-14, the required contribution rate for new members is 8.0 percent. "Classic" plan members are also required to contribute 8.0 percent of their salary. 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 2013-2014 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, 2014, 2013, and 2012, were \$1,001,042, \$945,296, and \$946,611, 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. As a result of the Public Employees Pension Reform Act of 2013 (PEPRA), changes have been made to the defined benefit pension plan effective January 1, 2013. 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

Due to the implementation of the Public Employee Pension Reform Act of 2013 (PEPRA), new members must pay at least 50 percent of the normal costs of the plan, which can fluctuate from year to year. For 2013-14, the normal cost is 11.85 percent, which rounds to a 6.0 percent contribution rate. "Classic" plan members continue to contribute 7.0 percent. 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 2013-2014 was 11.442 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, 2014, 2013, and 2012, were \$483,049, \$460,920, and \$471,114, respectively, and equal 100 percent of the required contributions for each year.

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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 5.541 percent of the 2014 annual payroll and 5.176 and 4.855 percent of the 2013 and 2012 annual payroll, respectively. The CalSTRS contribution to the District for the fiscal years ending June 30, 2014, 2013, and 2012, were \$635,775, \$593,838, and \$537,802, respectively. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budget amounts reported in the General Fund Budgetary Comparison Schedule.

NOTE 15 - 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, 2014.

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, 2014.

Construction Commitments

As of June 30, 2014, the District had the following commitments with respect to the unfinished capital projects:

Capital Project	Remaining Construction Commitment	Expected Date of Completion
West Elementary		
West Wing	\$ 1,298,284	12/2014
Crocker Middle		
Leased Portable	19,524	12/2014
Traffic Study on Ralston Ave.	19,695	06/2015
Total	<u>\$ 1,337,503</u>	

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 16 - 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.

During the year ended June 30, 2014, the District made payments of \$433,692 to SMCSIG.

NOTE 17 - SUBSEQUENT EVENTS

Tax and Revenue Anticipation Notes

The District issued \$1,230,000 of Tax and Revenue Anticipation Notes dated July 3, 2014. The notes mature on June 30, 2015, 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, 2015 and remaining principal and interest be deposited by April 30, 2015.

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 12, 2014, 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.

NOTE 18 - RESTATEMENT OF PRIOR YEAR NET POSITION

The District adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, in the current year. Under the provisions of GASB 65, deferred issuance costs are now considered to be period expenses and are no longer deferred and amortized to expense. As a result, the deferred issuance costs as of June 30, 2013 of \$350,689 have been offset against beginning net position in the government-wide financial statements as follows:

Statement of Net Position

Net Position - Beginning	\$ 525,035
Restatement/cost of issuance	(350,689)
Net Position - Beginning as Restated	<u>\$ 174,346</u>

REQUIRED SUPPLEMENTARY INFORMATION

HILLSBOROUGH CITY SCHOOL DISTRICT

GENERAL FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual	Variances - Favorable (Unfavorable)
	Original	Final		Final to Actual
REVENUES				
Local Control Funding Formula	\$ 15,049,512	\$ 15,526,172	\$ 15,562,743	\$ 36,571
Federal sources	283,210	286,330	286,292	(38)
Other state sources	522,092	687,152	709,529	22,377
Other local sources	6,242,508	6,484,099	6,567,140	83,041
Total Revenues ¹	<u>22,097,322</u>	<u>22,983,753</u>	<u>23,125,704</u>	<u>141,951</u>
EXPENDITURES				
Current				
Certificated salaries	11,841,022	12,347,167	12,346,324	843
Classified salaries	2,485,777	2,678,720	2,677,740	980
Employee benefits	3,024,242	3,134,842	3,133,853	989
Books and supplies	841,272	1,284,526	1,087,382	197,144
Services and operating expenditures	2,796,641	2,876,271	2,776,103	100,168
Other outgo	78,370	98,370	99,051	(681)
Capital outlay	57,000	82,642	82,642	-
Debt service - principal	58,368	59,968	52,107	7,861
Debt service - interest and other	43,708	42,108	45,955	(3,847)
Total Expenditures ¹	<u>21,226,400</u>	<u>22,604,614</u>	<u>22,301,157</u>	<u>303,457</u>
Excess of Revenues Over Expenditures	<u>870,922</u>	<u>379,139</u>	<u>824,547</u>	<u>445,408</u>
Other Financing Sources (Uses):				
Transfers in	44,500	44,500	44,500	-
Transfers out	(180,000)	(330,000)	(330,000)	-
Net Financing Uses	<u>(135,500)</u>	<u>(285,500)</u>	<u>(285,500)</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>735,422</u>	<u>93,639</u>	<u>539,047</u>	<u>445,408</u>
Fund Balance - Beginning	<u>3,804,934</u>	<u>3,804,934</u>	<u>3,804,934</u>	<u>-</u>
Fund Balance - Ending - Non GAAP	<u>\$ 4,540,356</u>	<u>\$ 3,898,573</u>	<u>4,343,981</u>	<u>\$ 445,408</u>
Fund Balance - Special Reserve Other			<u>530,678</u>	
Fund Balance - Ending - GAAP			<u>\$ 4,874,659</u>	

¹ On behalf payments of \$635,775 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, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age Normal (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
10/1/2012	\$ -	\$ 2,859,548	\$ 2,859,548	0%	\$ 14,126,444	20.24%
9/1/2010	-	2,603,901	2,603,901	0%	14,142,709	18.41%
9/1/2007	-	2,407,434	2,407,434	0%	13,767,918	17.49%

SUPPLEMENTARY INFORMATION

HILLSBOROUGH CITY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2014

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
No Child Left Behind			
Title II, Part A, Improving Teacher Quality Local Grants	84.367	14341	\$ 24,600
Individuals with Disabilities Act:			
Basic Local Assistance Entitlement, Part B	84.027	13379	238,577
Preschool Grants, Part B	84.173	13430	8,052
Preschool Local Entitlement, Part B	84.027A	13682	14,975
Preschool Staff Development, Part B	84.173A	13431	88
Total Expenditures of Federal Awards			<u>\$ 286,292</u>

See accompanying note to supplementary information.

HILLSBOROUGH CITY SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE FOR THE YEAR ENDED JUNE 30, 2014

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	2017
Margi Power	Vice President	2015
Gregory Dannis	Clerk	2015
Don Geddis	Member	2017
Gilbert Wai	Member	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, 2014

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	591.59	593.58
Fourth through sixth	530.73	530.21
Seventh and eighth	355.67	354.30
Total Regular ADA	1,477.99	1,478.09
Extended Year Special Education		
Transitional kindergarten through third	0.51	0.51
Fourth through sixth	0.19	0.19
Total Extended Year Special Education	0.70	0.70
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	2.73	2.75
Fourth through sixth	0.96	0.96
Seventh and eighth	4.87	4.71
Total Special Education, Nonpublic, Nonsectarian Schools	8.56	8.42
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.22	0.22
Fourth through sixth	0.11	0.11
Seventh and eighth	0.53	0.53
Total Extended Year Special Education, Nonpublic, Nonsectarian Schools	0.86	0.86
Total ADA	1,488.11	1,488.07

See accompanying note to supplementary information.

HILLSBOROUGH CITY SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME FOR THE YEAR ENDED JUNE 30, 2014

Grade Level	1986-87	Reduced	2013-14	Number of Days	
	Minutes Requirement	1986-87 Minutes Requirement	Actual Minutes	Traditional Calendar	Status
Kindergarten	36,000	35,000	41,435	180	Complied
Grades 1 - 3	50,400	49,000			
Grade 1			52,075	180	Complied
Grade 2			52,075	180	Complied
Grade 3			54,080	180	Complied
Grades 4 - 6	54,000	52,500			
Grade 4			56,075	180	Complied
Grade 5			56,075	180	Complied
Grade 6			61,605	180	Complied
Grades 7 - 8	54,000	52,500			
Grade 7			61,605	180	Complied
Grade 8			61,605	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, 2014

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, 2014, Unaudited Actuals	\$ 4,343,981	\$ 530,678
To conform with GASB 54, the District consolidated the Special Reserve Fund for Other Than Capital Outlay into the General Fund.	530,678	(530,678)
Balance, June 30, 2014, Audited Financial Statements	<u>\$ 4,874,659</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, 2014

	(Budget) 2015 ¹	2014	2013	2012
GENERAL FUND ⁴				
Revenues	\$ 22,950,133	\$ 23,125,704	\$ 21,416,809	\$ 20,376,237
Other sources and transfers in	44,500	44,500	44,500	44,500
Total Revenues and Other Sources	22,994,633	23,170,204	21,461,309	20,420,737
Expenditures	23,308,295	22,301,157	20,909,746	20,713,397
Other uses and transfers out	330,000	330,000	-	-
Total Expenditures and Other Uses	23,638,295	22,631,157	20,909,746	20,713,397
INCREASE (DECREASE) IN FUND BALANCE	\$ (643,662)	\$ 539,047	\$ 551,563	\$ (292,660)
ENDING FUND BALANCE	\$ 3,700,319	\$ 4,343,981	\$ 3,804,934	\$ 3,253,371
AVAILABLE RESERVES ^{2,3}	\$ 3,556,259	\$ 3,574,818	\$ 3,272,737	\$ 2,724,683
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	15.04%	15.80%	15.65%	13.15%
LONG-TERM DEBT	\$ 68,534,109	\$ 69,854,256	\$ 67,944,873	\$ 66,332,174
K-12 AVERAGE DAILY ATTENDANCE AT P-2	1,487	1,488	1,479	1,490

The General Fund balance has increased by \$1,090,610 over the past two years. The fiscal year 2014-2015 budget projects a decrease of \$643,662. 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 in the past three years, but anticipates incurring an operating deficit during the 2014-2015 fiscal year.

Total long-term obligations have increased by \$3,522,082 over the past two years.

Average daily attendance has decreased by 2 over the past two years. Additional decline of 1 ADA is anticipated during fiscal year 2014-2015.

¹ Budget 2015 is included for analytical purposes only and has not been subjected to audit.

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

³ On-behalf payments of \$635,775, \$593,838, and \$537,802, have been excluded from the actuals and the calculation of the available reserves percentage for fiscal years ending June 30, 2014, 2013, and 2012, respectively.

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

See accompanying note to supplementary information.

HILLSBOROUGH CITY SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS COMBINING BALANCE SHEET JUNE 30, 2014

	Cafeteria Fund	Deferred Maintenance Fund	Retiree Benefit Special Reserve Fund
ASSETS			
Deposits and investments	\$ 3,050	\$ 124,710	\$ 666,200
Receivables	599	214	999
Total Assets	<u>\$ 3,649</u>	<u>\$ 124,924</u>	<u>\$ 667,199</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ -	\$ -	\$ -
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:			
Restricted	3,649	-	-
Committed	-	124,924	667,199
Total Fund Balances	<u>3,649</u>	<u>124,924</u>	<u>667,199</u>
Total Liabilities and Fund Balances	<u>\$ 3,649</u>	<u>\$ 124,924</u>	<u>\$ 667,199</u>

See accompanying note to supplementary information.

Building Fund	Capital Facilities Fund	Total Non-Major Governmental Funds
\$ 102,824	\$ 106,815	\$ 1,003,599
154	643	2,609
<u>\$ 102,978</u>	<u>\$ 107,458</u>	<u>\$ 1,006,208</u>
\$ -	\$ 3,775	\$ 3,775
-	3,775	3,775
102,978	103,683	210,310
-	-	792,123
<u>102,978</u>	<u>103,683</u>	<u>1,002,433</u>
<u>\$ 102,978</u>	<u>\$ 107,458</u>	<u>\$ 1,006,208</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, 2014

	Cafeteria Fund	Deferred Maintenance Fund	Retiree Benefit Special Reserve Fund
REVENUES			
Local sources	\$ 4,040	\$ 1,034	\$ 3,040
Total Revenues	<u>4,040</u>	<u>1,034</u>	<u>3,040</u>
EXPENDITURES			
Current			
Pupil Services:			
Food services	2,309	-	-
Plant services	-	33,712	-
Total Expenditures	<u>2,309</u>	<u>33,712</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	1,731	(32,678)	3,040
Other Financing Source:			
Transfers in	-	-	330,000
NET CHANGE IN FUND BALANCES	1,731	(32,678)	333,040
Fund Balance - Beginning	1,918	157,602	334,159
Fund Balance - Ending	<u>\$ 3,649</u>	<u>\$ 124,924</u>	<u>\$ 667,199</u>

See accompanying note to supplementary information.

Building Fund	Capital Facilities Fund	Total Non-Major Governmental Funds
<u>\$ 102,978</u>	<u>\$ 66,216</u>	<u>\$ 177,308</u>
<u>102,978</u>	<u>66,216</u>	<u>177,308</u>
-	-	2,309
-	6,632	40,344
-	6,632	42,653
102,978	59,584	134,655
-	-	330,000
102,978	59,584	464,655
-	44,099	537,778
<u>\$ 102,978</u>	<u>\$ 103,683</u>	<u>\$ 1,002,433</u>

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2014

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 receive incentive funding for increasing instruction time as provided by the Incentives for longer Instructional Day. The District exceeded its target funding. 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 the 1986-87 actual minutes requirement 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.

INDEPENDENT AUDITOR'S REPORTS



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

Board of Trustees
Hillsborough City School District
Hillsborough, California

We have audited, in accordance with 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 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, 2014, 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 12, 2014.

Change in Accounting Principles

As discussed in Note 18 to the financial statements, the District has adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

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.

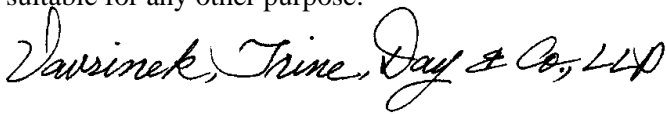
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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



Palo Alto, California
December 12, 2014



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 2013-2014* 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, 2014.

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 2013-2014*. 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.

Unmodified Opinion

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, 2014.

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	No
Independent Study	23	Not applicable
Continuation Education	10	Not applicable
Instructional Time:		
School Districts	10	Yes
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
Local Control Funding Formula Certification	1	Yes
California Clean Energy Jobs Act	3	No
After School Education and Safety Program:		
General Requirements	4	Not applicable
After School	5	Not applicable
Before School	6	Not applicable
Education Protection Account Funds	1	Yes
Common Core Implementation Funds	3	Yes
Unduplicated Local Control Funding Formula Pupil Counts	3	Yes
Charter Schools:		
Contemporaneous Records of Attendance	8	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
Charter School Facility Grant Program	1	Not applicable

We did not test Kindergarten Continuance because there were no retained kindergarteners during the year. We did not test California Clean Energy Jobs Act because the award had not been spent as of June 30, 2014.

Vassinek, Trine, Day & Co., LLP

Palo Alto, California
December 12, 2014

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

HILLSBOROUGH CITY SCHOOL DISTRICT

SUMMARY OF AUDITOR'S RESULTS FOR THE YEAR ENDED JUNE 30, 2014

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 state programs:	<u>Unmodified</u>
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HILLSBOROUGH CITY SCHOOL DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014**

None reported.

HILLSBOROUGH CITY SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

None reported.

HILLSBOROUGH CITY SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2014

Financial Statement Findings

None reported.

Federal Award Findings

None reported.

State Award Findings

None reported.