

**HILLSBOROUGH CITY
SCHOOL DISTRICT**

**ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
JUNE 30, 2015**

HILLSBOROUGH CITY SCHOOL DISTRICT

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Hillsborough City School District
Hillsborough, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, 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, 2015, 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 6, 2015 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 *2014-2015 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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, as a discrete component unit, as of June 30, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 1 and 18 to the financial statements, in 2015, the District adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which has resulted in a restatement of beginning net position in the governmental-wide financial statement. The impact of the restatement is a reduction in beginning net position of \$21,796,415. Our opinion is not modified with respect to these matters.

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, budgetary comparison, schedule of postemployment benefits funding progress, schedule of the District's proportionate share of the net pension liability, and schedule of the District's pension contribution 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 accompanying supplementary information such as combining nonmajor fund financial statements and Schedule of Expenditures of Federal Awards, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying 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 15, 2015, 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.



Palo Alto, California
December 15, 2015

HILLSBOROUGH CITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

This section of the Hillsborough City School District's 2014-2015 annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2015. 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 2014 California Basic Educational Data System (CBEDS) count, the student population was 1002 in grades Transitional Kindergarten-5 and 544 in grades 6-8, for a total of 1,546. Students are housed in four schools: North, South, and West Elementary Schools and William H. Crocker Middle School. Of the student population, 3.10% Hispanic, 0.39% American Indian or Alaskan Native, 28.46% were Asian, 0.39% African-American, 0.13% Pacific Islander, 60.87% White, 6.34% had multiple designations, and 0.32% 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 received Gold Ribbon Award in 2015. The School was also 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, 2015

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, 2015

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 2014-2015, the District experienced growth in secured assessed valuation of 6.17% receiving \$15,353,029 in local property taxes, \$5,555,390 over, or "in excess" of, total transition entitlement calculated by the LCFF. This primary source funded 60.72% 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 deficated. 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. Of the one-time \$306,066 Common Core State Standards Implementation Funds received in 2013-14, the remaining \$240,891 was spent in 2014-15 to fund professional development, instructional materials, and technology to implement Common Core instruction.

HILLSBOROUGH CITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

Another significant source of funding for the District is through the fund raising efforts of the Hillsborough Schools Foundation (HSF). In 2014-2015, the District received \$3,600,000 in support of the programs offered to the children of Hillsborough. In addition to this generous local support, the District received \$2,069,335 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. In 2014-15, the District gave employees another increase in total compensation and brought back the World Language programs in all four schools.

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.

HILLSBOROUGH CITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

- The governmental funds statements tell how basic services like regular and special education were financed in the short-term as well as what remains for future spending.
- Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong. Fiduciary fund activity is excluded from the government-wide financial statements.

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

Government-wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net 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

HILLSBOROUGH CITY SCHOOL DISTRICT

MANAGEMENT’S DISCUSSION AND ANALYSIS JUNE 30, 2015

government-wide statements, we provide additional information at the bottom of the governmental funds statements that explain the relationship (or differences) between them.

- Fiduciary funds – The District is the trustee, or fiduciary, for assets that belong to others, such as the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District’s fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the government-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

The District’s government-wide combined net position was (\$28,999,694) as of June 30, 2015, primarily due to recognition of depreciation on capital assets and implementation of GASB 68. 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		
	2015	2014	Total Changes
Current and other assets	\$ 8,388.0	\$ 9,639.5	\$ (1,251.5)
Capital assets	57,349.3	58,400.0	(1,050.7)
Total Assets	<u>65,737.3</u>	<u>68,039.5</u>	<u>(2,302.2)</u>
Deferred Outflows of Reserves	<u>1,622.9</u>	<u>93.3</u>	<u>1,529.6</u>
Current liabilities	905.7	1,152.9	(247.2)
Long-term debt	90,585.0	69,854.2	20,730.8
Total Liabilities	<u>91,490.7</u>	<u>71,007.1</u>	<u>20,483.6</u>
Deferred Inflows of Reserves	4,869.2	-	4,869.2
Net investment in capital assets	(12,964.4)	(10,141.9)	(2,822.5)
Restricted	1,789.6	1,505.5	284.1
Unrestricted	<u>(17,824.9)</u>	<u>5,762.1</u>	<u>(23,587.0)</u>
Total Net Position	<u>\$ (28,999.7)</u>	<u>\$ (2,874.3)</u>	<u>\$ (26,125.4)</u>

HILLSBOROUGH CITY SCHOOL DISTRICT

**MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2015**

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 \$4,329,016. 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		Total Changes
	2015	2014	
Revenues			
Program revenues			
Charges for services	\$ 311.3	\$ 297.1	\$ 14.2
Operating grants and contributions	1,269.0	780.0	489.0
Property taxes for general purposes	16,224.4	15,093.1	1,131.3
Other taxes	4,309.6	4,188.0	121.6
Other general revenues	6,757.6	5,874.9	882.7
Total Revenues	<u>28,871.9</u>	<u>26,233.1</u>	<u>2,638.8</u>
Expenses			
Instruction related	23,669.8	20,551.4	3,118.4
Student support services	1,071.6	828.5	243.1
Administration	1,796.7	1,733.0	63.7
Maintenance and operations	2,586.9	2,232.6	354.3
Other	4,075.9	3,936.2	139.7
Total Expenses	<u>33,200.9</u>	<u>29,281.7</u>	<u>3,919.2</u>
Change in Net Position	<u>\$ (4,329.0)</u>	<u>\$ (3,048.6)</u>	<u>\$ (1,280.4)</u>

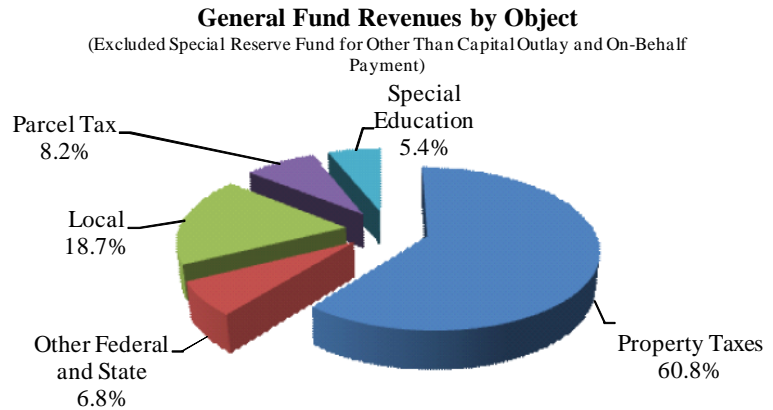
Expenses related to educating and caring for students accounted for \$24.74 million of total expenses, an increase of 15.7% over the prior year. Expenditure commitments consumed all revenues received as well as all of beginning net position.

HILLSBOROUGH CITY SCHOOL DISTRICT

MANAGEMENT’S DISCUSSION AND ANALYSIS JUNE 30, 2015

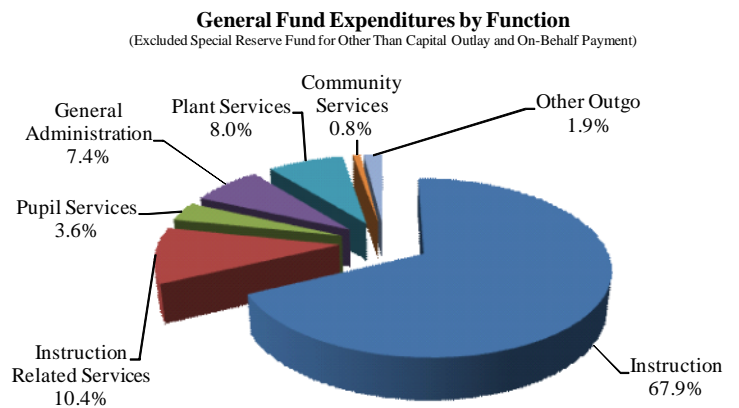
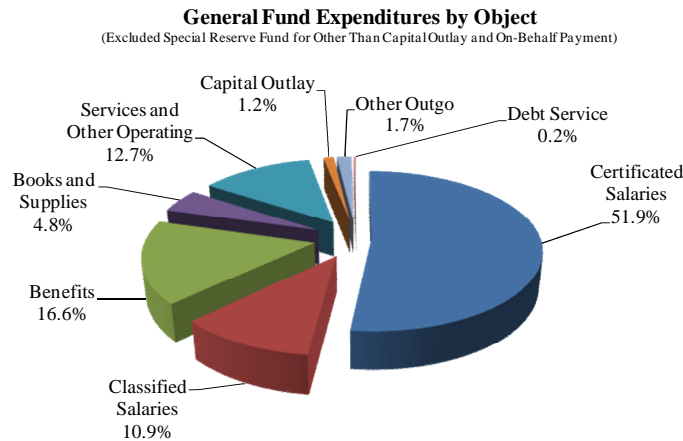
FINANCIAL ANALYSIS OF THE DISTRICT’S GENERAL FUND

The District is basic aid, which means that the District relies on local property taxes rather than State aid for revenue. Total revenues for 2014-2015 increased 6.1% from the prior year to \$25,262,249 (not including on behalf payments of \$650,687 by the State to CalSTRS). Revenues increased \$1,036,631 from local property taxes; \$6,668 from the parcel tax; \$8,465 from Special Education funding; Locally generated revenues amounted to 90.3% of the District’s total revenues.



Expenditures increased 14.6% 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 \$25,564,247 (not including on behalf payments of \$650,687 by the State to CalSTRS) expended during 2014-2015, 79.5% 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 78.3% of total general fund expenditures on instruction and instruction-related activities.



HILLSBOROUGH CITY SCHOOL DISTRICT

MANAGEMENT’S DISCUSSION AND ANALYSIS JUNE 30, 2015

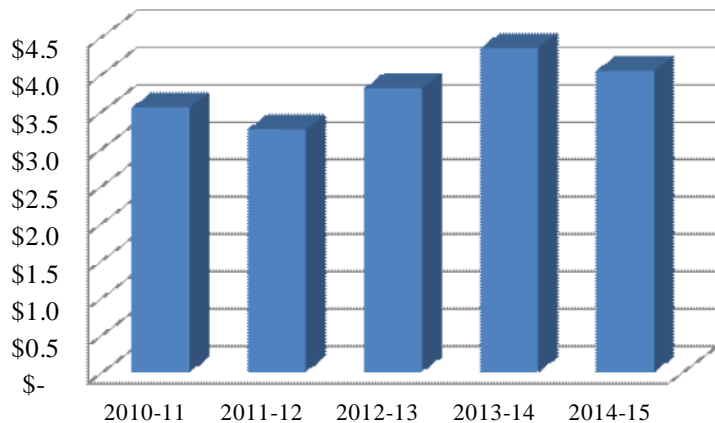
Total revenues exceeded total expenditures in the General Fund, excluding the Special Reserve Fund for Other Than Capital Outlay, by \$302,001. This gain increased the ending fund balance of the current year to \$4,041,980. Of this amount, \$41,223 was nonspendable; \$174,556 was restricted; \$421,396 was assigned; and \$3,404,805 was unassigned. The District’s unassigned ending balance amounted to 13.3% of total General Fund expenditures and other uses.

General Fund Budgetary Highlights

The Adopted Budget for the General Fund anticipated a decrease in the ending balance of -\$643,662. The District ended the year with a decrease of \$302,001. 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 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 2015-16 projects growth in secured property taxes at 7.24%. Local property taxes are estimated to be \$16,291,697. The State will be in the third year of LCFF where funding remains at \$172,044. State funding continues to be enhanced by an additional \$302,034 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, 2015

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
	2015	2014	
Cost:			
Land	\$ 228.7	\$ 228.7	\$ -
Work in progress	-	196.1	(196.1)
Improvement of sites	3,216.3	1,805.1	1,411.2
Buildings	75,525.8	75,525.8	-
Equipment	2,559.1	2,263.5	295.6
Total Capital Assets	81,529.9	80,019.2	1,510.7
Accumulated Depreciation:			
Improvement of sites	1,155.0	1,063.0	92.0
Buildings	21,472.1	19,126.6	2,345.5
Equipment	1,553.5	1,429.6	123.9
Total Accumulated Depreciation	24,180.6	21,619.2	2,561.4
Net Book Value:			
Land	228.7	228.7	-
Work in progress	-	196.1	(196.1)
Improvement of sites	2,061.3	742.1	1,319.2
Buildings	54,053.7	56,399.2	(2,345.5)
Equipment	1,005.6	833.9	171.7
	\$ 57,349.3	\$ 58,400.0	\$ (1,050.7)

By year end, the District had invested \$81.5 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 \$1,510,743 from the current year resulted from the completion of the West Wing Portable project and the installation of board meeting equipment at Crocker Lecture Hall. Net book value (the amount of total assets after applying depreciation) decreased \$1,050,685 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, 2015**

Long-Term Debt

Hillsborough City School District Outstanding Long-Term Debt at Year-End (in thousands of dollars)			
	Total Government-Wide		Total Changes
	2015	2014	
Long-Term Debt Outstanding:			
General obligation bonds	\$ 70,171.8	\$ 68,537.5	\$ 1,634.3
Capitalized leases	228.6	97.8	130.8
Accumulated vacation	96.0	132.5	(36.5)
Sick leave bank	61.9	24.8	37.1
Other postemployment benefits	1,406.5	1,061.7	344.8
Net pension liability	18,620.2	-	18,620.2
	<u>\$ 90,585.0</u>	<u>\$ 69,854.3</u>	<u>\$ 2,110.5</u>

At June 30, 2015, the District had \$69,070,959 in general obligation bonds, net of \$1,100,887 bond premium, and in other long-term debt outstanding. Current year accretion of the Capital Appreciation Bonds amounted to \$2,742,384. The District has thirty years to recognize its Unfunded Actuarial Accrued Liability (UAAL) for Other Post Employment Benefits. This is the seventh of the thirty years. Total UAAL for the District is \$3,569,240.

Net Pension Liability (NPL)

GASB Statement 68 (GASB 68), *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, requires Local Educational Agencies (LEAs) to recognize the accrual-basis Net Pension Liability (NPL) for both CalPERS and CalSTRS by reporting in their government-wide financial statements their proportionate shares of CalPERS and CalSTRS NPL. For 2014-15, total Net Pension Liabilities for the District amounts to \$18,620,194, resulting in -\$28,999,694 total net positions, ten times of that for 2013-14. GASB 68 also requires school districts to recognize state’s on-behalf STRS contributions in governmental funds, which represents \$650,688 in state revenue as well \$650,688 in employee benefits as expenditures.

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.

HILLSBOROUGH CITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

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, 2015

	Governmental Activities	Discrete Component Units	
		Hillsborough Schools Foundation	Hillsborough Recreation
ASSETS			
Deposits and investments	\$ 7,677,585	\$ 12,146,843	\$ 2,391,984
Receivables	674,179	258,522	18,991
Prepaid expenses	36,223	23,274	15,538
Capital assets not being depreciated	228,711	-	-
Capital assets being depreciated	81,301,182	24,786	76,202
Less: Accumulated depreciation	(24,180,594)	(21,032)	(28,333)
Total Assets	65,737,286	12,432,393	2,474,382
DEFERRED OUTFLOWS OF RESOURCES			
Loss on refunding	86,663	-	-
Current year pension contribution	1,536,249	-	-
Total Deferred Outflows of Resources	1,622,912	-	-
LIABILITIES			
Accounts payable	498,720	3,557,762	81,060
Interest payable	348,257	-	-
Unearned revenue	58,708	-	581,632
Current portion of long-term obligations other than pensions	1,332,692	-	-
Noncurrent portion of long-term obligations other than pensions	70,632,082	335,000	-
Aggregate net pension liability	18,620,194	-	-
Total Liabilities	91,490,653	3,892,762	662,692
DEFERRED INFLOWS OF RESOURCES			
Difference between actual and expected rate of investment return	4,869,239	-	-
Total Deferred Inflows of Resources	4,869,239	-	-
NET POSITION			
Net investment in capital assets	(12,964,449)	-	47,869
Restricted for:			
Debt service	1,572,795	-	-
Capital projects	34,835	-	-
Education programs	174,556	-	-
Food programs	7,451	-	-
Other restrictions	-	3,542,685	-
Unrestricted	(17,824,882)	4,996,946	1,763,821
Total Net Position	\$ (28,999,694)	\$ 8,539,631	\$ 1,811,690

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

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HILLSBOROUGH CITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2015

Functions/Programs	Expenses	Program Revenues	
		Charges for Services and Sales	Operating Grants and Contributions
Governmental Activities:			
Instruction	\$ 20,491,406	\$ 280,635	\$ 991,240
Instruction-related activities:			
Supervision of instruction	1,417,400	18,732	91,927
Instructional library, media, and technology	152,852	-	2,808
School site administration	1,608,173	8	34,775
Pupil services:			
Home-to-school transportation	163,029	9,334	3,287
Food services	32	-	-
All other pupil services	908,580	2,089	36,469
General administration:			
Data processing	381,243	-	-
All other general administration	1,415,484	-	7,294
Plant services	2,586,913	526	101,227
Community services	245,712	-	-
Interest on long-term obligations	3,736,002	-	-
Other outgo	94,113	-	-
Total Governmental-Type Activities	\$ 33,200,939	\$ 311,324	\$ 1,269,027

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
\$ (19,219,531)	\$ -	\$ -
(1,306,741)	-	-
(150,044)	-	-
(1,573,390)	-	-
(150,408)	-	-
(32)	-	-
(870,022)	-	-
(381,243)	-	-
(1,408,190)	(510,665)	(298,898)
(2,485,160)	-	-
(245,712)	-	-
(3,736,002)	-	-
(94,113)	(3,530,500)	(1,748,497)
<u>(31,620,588)</u>	<u>(4,041,165)</u>	<u>(2,047,395)</u>
16,224,386	-	-
2,240,259	-	-
2,069,335	-	-
821,366	-	-
81,642	-	7,053
5,854,584	4,242,453	2,168,583
<u>27,291,572</u>	<u>4,242,453</u>	<u>2,175,636</u>
(4,329,016)	201,288	128,241
(24,670,678)	8,338,343	1,683,449
<u>\$ (28,999,694)</u>	<u>\$ 8,539,631</u>	<u>\$ 1,811,690</u>

HILLSBOROUGH CITY SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2015**

	General Fund	Retiree Benefits Special Reserve Fund	Special Reserve Capital Outlay Fund
ASSETS			
Deposits and investments	\$ 4,376,919	\$ 1,001,890	\$ 254,539
Receivables	663,595	1,709	435
Prepaid expenditures	36,223	-	-
Total Assets	\$ 5,076,737	\$ 1,003,599	\$ 254,974
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 498,720	\$ -	\$ -
Unearned revenue	375	-	58,333
Total Liabilities	499,095	-	58,333
Fund Balances:			
Nonspendable	41,223	-	-
Restricted	174,556	-	-
Committed	-	1,003,599	-
Assigned	421,396	-	196,641
Unassigned	3,940,467	-	-
Total Fund Balances	4,577,642	1,003,599	196,641
Total Liabilities and Fund Balances	\$ 5,076,737	\$ 1,003,599	\$ 254,974

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

Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ 1,918,234	\$ 126,003	\$ 7,677,585
2,818	5,622	674,179
-	-	36,223
<u>\$ 1,921,052</u>	<u>\$ 131,625</u>	<u>\$ 8,387,987</u>
\$ -	\$ -	\$ 498,720
-	-	58,708
-	-	<u>557,428</u>
-	-	41,223
1,921,052	42,299	2,137,907
-	89,326	1,092,925
-	-	618,037
-	-	3,940,467
<u>1,921,052</u>	<u>131,625</u>	<u>7,830,559</u>
<u>\$ 1,921,052</u>	<u>\$ 131,625</u>	<u>\$ 8,387,987</u>

HILLSBOROUGH CITY SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION JUNE 30, 2015

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

Total Fund Balance - Governmental Funds		\$ 7,830,559
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	\$ 81,529,893	
Accumulated depreciation is	(24,180,594)	
Net Capital Assets	<u>57,349,299</u>	57,349,299
Expenditures relating to contributions made to pension plans were recognized on the modified accrual basis, but are not recognized on the accrual basis.		1,536,249
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.		(348,257)
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.		86,663
The difference between projected and actual pension plan investment earnings are not recognized on the modified accrual basis, but are recognized on the accrual basis as an adjustment to pension expense.		(4,869,239)
Long-term liabilities at year end consist of:		
Bonds payable, including premium	(70,171,846)	
Capital leases payable	(228,578)	
Compensated absences (vacations)	(157,900)	
Other post employment benefit obligation	(1,406,450)	
Net pension liability	<u>(18,620,194)</u>	
Total Long-Term Liabilities		(90,584,968)
Total Net Position - Governmental Activities		<u>\$ (28,999,694)</u>

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

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HILLSBOROUGH CITY SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>General Fund</u>	<u>Retiree Benefits Special Reserve Fund</u>	<u>Special Reserve Capital Outlay Fund</u>
REVENUES			
Local Control Funding Formula	\$ 16,697,377	\$ -	\$ -
Federal sources	296,474	-	-
Other state sources	1,314,993	-	-
Other local sources	6,634,946	6,400	104,775
Total Revenues	<u>24,943,790</u>	<u>6,400</u>	<u>104,775</u>
EXPENDITURES			
Current			
Instruction	17,353,184	-	-
Instruction-related activities:			
Supervision of instruction	1,181,046	-	-
Instructional library, media and technology	132,383	-	-
School site administration	1,339,258	-	-
Pupil Services:			
Home-to-school transportation	145,997	-	-
Food services	-	-	-
All other pupil services	769,087	-	-
General administration:			
Data processing	341,414	-	-
All other general administration	1,548,160	-	-
Plant services	2,051,768	-	63,726
Facility acquisition and construction	-	-	1,015,092
Community services	204,217	-	-
Other outgo	94,113	-	-
Debt service:			
Principal	50,365	-	-
Interest and other	23,258	-	-
Total Expenditures	<u>25,234,250</u>	<u>-</u>	<u>1,078,818</u>
Excess (Deficiency) of			
Revenues Over Expenditures	<u>(290,460)</u>	<u>6,400</u>	<u>(974,043)</u>
Other Financing Sources (Uses):			
Transfers in	44,500	330,000	-
Other sources	278,943	-	-
Transfers out	(330,000)	-	(44,500)
Net Financing Sources (Uses)	<u>(6,557)</u>	<u>330,000</u>	<u>(44,500)</u>
NET CHANGE IN FUND BALANCES	<u>(297,017)</u>	<u>336,400</u>	<u>(1,018,543)</u>
Fund Balance - Beginning	4,874,659	667,199	1,215,184
Fund Balance - Ending	<u>\$ 4,577,642</u>	<u>\$ 1,003,599</u>	<u>\$ 196,641</u>

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

Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 16,697,377
-	-	296,474
5,295	-	1,320,288
2,244,833	97,541	9,088,495
<u>2,250,128</u>	<u>97,541</u>	<u>27,402,634</u>
-	-	17,353,184
-	-	1,181,046
-	-	132,383
-	-	1,339,258
-	-	145,997
-	29	29
-	-	769,087
-	-	341,414
-	-	1,548,160
-	60,920	2,176,414
-	240,201	1,255,293
-	-	204,217
-	-	94,113
1,030,000	-	1,080,365
1,049,000	-	1,072,258
<u>2,079,000</u>	<u>301,150</u>	<u>28,693,218</u>
171,128	(203,609)	(1,290,584)
-	-	374,500
-	-	278,943
-	-	(374,500)
-	-	278,943
171,128	(203,609)	(1,011,641)
1,749,924	335,234	8,842,200
<u>\$ 1,921,052</u>	<u>\$ 131,625</u>	<u>\$ 7,830,559</u>

HILLSBOROUGH CITY SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2015

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

Total Net Change in Fund Balances - Governmental Funds **\$ (1,011,641)**

Capital outly 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	\$ (2,561,428)	
Capital outlays	<u>1,510,743</u>	
Net Expense Adjustment		(1,050,685)

Some of the capital assets acquired this year were financed with capital leases. The amount financed by the leases is reported in the governmental funds as a source of financing. On the other hand, the capital leases are long-term liabilities in the statement of net position and the correlating equipment is capitalized and depreciated in the statement of activities. (278,943)

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 \$564. (564)

In the governmental funds, pension costs are based on employer contributions made to pension plans during the year. However, in the Statement of Activities, pension expense is the net effect of all changes in the deferred outflows, deferred inflows and net pension liability during the year. (156,769)

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. 148,115

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. 1,030,000

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, 2015**

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.		(2,742,384)
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
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.		7,264
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.		(344,785)
Change in Net Position of Governmental Activities		<u><u>\$ (4,329,016)</u></u>

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

HILLSBOROUGH CITY SCHOOL DISTRICT

**FIDUCIARY FUND
STATEMENT OF NET POSITION
JUNE 30, 2015**

	<u>Agency Funds</u>
ASSETS	
Deposits and investments	\$ 82,460
Total Assets	<u>\$ 82,460</u>
LIABILITIES	
Due to student groups	\$ 82,460
Total Liabilities	<u>\$ 82,460</u>

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

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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, San Mateo County Schools' Insurance Group. This organization does not meet the criteria for inclusion as a component unit of the District. Additional information is presented in Note 16 to the financial statements.

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, 2015

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

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).

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, 2015

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, 2015

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, 2015

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, 2015, 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.

Prepaid Expenditures/Expenses

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, 2015

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, 2015

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.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position also reports deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an expense until then. The District reports deferred outflows of resources for the unamortized loss on the refunding of general obligation bonds and current year pension contributions.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The District reports deferred inflows of resources for the difference between actual and expected rate of return on investments specific to the net pension liability.

Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the California State Teachers Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) plan for schools (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalSTRS and CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Member contributions are recognized in the period in which they are earned. Investments are reported at fair value.

Fund Balances – Governmental Funds

As of June 30, 2015, fund balances of the governmental funds are classified as follows:

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

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

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

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

Unassigned – all other spendable amounts.

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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.

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.

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

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.

Change in Accounting Principles

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. Statement No. 68 requires a state or local government employer to recognize a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. In addition, Statement No. 68 requires recognition of deferred outflows of resources and deferred inflows of resources for changes in the net pension liability of a state or local government employer that arise from other types of events. The District has implemented the Provisions of this Statement for the year ended June 30, 2015.

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 District has implemented the Provisions of this Statement for the year ended June 30, 2015.

As the result of implementing GASB Statement No. 68, the District has restated the beginning net position in the government wide Statement of Net Position, effectively decreasing net position as of July 1, 2014, by \$21,869,719. The decrease results from recognizing the net pension liability, net of related deferred outflows of resources.

New Accounting Pronouncements

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015. Early implementation is encouraged.

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2016. Early implementation is encouraged.

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2016. Early implementation is encouraged.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB 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 all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. Earlier implementation is permitted.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. Earlier implementation is permitted.

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2015, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 7,677,585
Fiduciary funds	82,460
Total Deposits and Investments	<u>\$ 7,760,045</u>

Deposits and investments as of June 30, 2015, consist of the following:

Cash on hand and in banks	\$ 82,460
Cash in revolving	5,000
Investments	7,672,585
Total Deposits and Investments	<u>\$ 7,760,045</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, 2015

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, 2015, was 7,671,818 and the weighted average of the pool was 1.63 years. The fair value of the deposits with the state investment Pool at June 30, 2015, was 1,761 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, 2015.

HILLSBOROUGH CITY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

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, 2015, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Retiree Benefits Special Reserve Fund	Special Reserve Capital Outlay Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total
Federal Government						
Categorical aid	\$ 122,227	\$ -	\$ -	\$ -	\$ -	\$ 122,227
State Government						
Categorical aid	377,011	-	-	-	-	377,011
Lottery	133,332	-	-	-	-	133,332
Local Government						
Interest	10,992	1,709	435	2,818	202	16,156
Other Local Sources	20,033	-	-	-	5,420	25,453
Total	<u>\$ 663,595</u>	<u>\$ 1,709</u>	<u>\$ 435</u>	<u>\$ 2,818</u>	<u>\$ 5,622</u>	<u>\$ 674,179</u>

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2015, was as follows:

	Balance July 1, 2014	Additions	Deductions	Balance June 30, 2015
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 228,711	\$ -	\$ -	\$ 228,711
Construction in Progress	196,066	1,231,800	1,427,866	-
Total Capital Assets Not Being Depreciated	424,777	1,231,800	1,427,866	228,711
Capital Assets Being Depreciated:				
Land Improvements	1,805,077	-	-	1,805,077.00
Buildings and Improvements	75,525,837	1,411,202	-	76,937,039
Furniture and Equipment	2,263,459	295,607	-	2,559,066
Total Capital Assets Being Depreciated	79,594,373	1,706,809	-	81,301,182
Total Capital Assets	80,019,150	2,938,609	1,427,866	81,529,893
Less Accumulated Depreciation:				
Land Improvements	1,062,962	92,035	-	1,154,997
Buildings and Improvements	19,126,637	2,345,491	-	21,472,128
Furniture and Equipment	1,429,567	123,902	-	1,553,469
Total Accumulated Depreciation	21,619,166	2,561,428	-	24,180,594
Governmental Activities Capital Assets, Net	\$ 58,399,984	\$ 377,181	\$ 1,427,866	\$ 57,349,299

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

Governmental Activities	
Instruction	\$ 1,784,220
Supervision of instruction	121,433
Instructional library, media, and technology	13,611
School administration	137,700
Pupil transportation	15,011
Food services	3
Other pupil services	79,076
Community services	20,997
Other general administration	130,498
Data processing services	35,104
Plant services	223,775
Total Depreciation Expense	<u>\$ 2,561,428</u>

HILLSBOROUGH CITY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

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, 2015.

Operating Transfers

Interfund transfers for the year ended June 30, 2015, consisted of the following:

		Transfer In		
		General Fund	Retiree Benefits Special Reserve Fund	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 \$12,964,449 includes the effect of deferring the recognition of loss from advance refunding. The \$86,663 balance of the deferred outflow of resources at June 30, 2015 will be recognized as an expense and as a decrease in net position over the remaining life of related bonds. The District's current year pension contribution of \$1,536,249 was made after the pension liability measurement date, June 30, 2014. Therefore, the recognition of current year payment is deferred and will be recognized as pension expenses in fiscal year 2015-16 (see Note 14 for more information on pension expenses).

HILLSBOROUGH CITY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

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

	Balance			Balance
	July 1, 2014	Additions	Deductions	June 30, 2015
Defeasance costs	\$ 93,330	\$ -	\$ 6,667	\$ 86,663
Deferred outflow from pension contributions	1,296,079	1,536,249	1,296,079	1,536,249
Total	<u>\$ 1,389,409</u>	<u>\$ 1,536,249</u>	<u>\$ 1,302,746</u>	<u>\$ 1,622,912</u>

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2015, consisted of the following:

	General Fund
Vendor payables	\$ 223,810
Salaries and benefits	274,910
Total	<u>\$ 498,720</u>

NOTE 8 - UNEARNED REVENUE

Unearned revenue at June 30, 2015, consists of the following:

	General Fund	Special Reserve Capital Outlay Fund	Total
State categorical aid	\$ 375	\$ -	\$ 375
Other local	-	58,333	58,333
Total	<u>\$ 375</u>	<u>\$ 58,333</u>	<u>\$ 58,708</u>

NOTE 9 - TAX AND REVENUE ANTICIPATION NOTES (TRANS)

On July 3, 2014, the District issued \$1,230,000 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, 2015. By April 30, 2015, 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, 2015

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, 2014	Additions	Deductions	Balance June 30, 2015	Due in One Year
General obligation bonds	\$ 67,358,575	\$ 2,742,384	\$ 1,030,000	\$ 69,070,959	\$ 1,201,708
Bond premium	1,178,930	-	78,043	1,100,887	78,043
Compensated absences	157,336	564	-	157,900	-
Capital leases	97,750	278,943	148,115	228,578	52,941
OPEB	1,061,665	344,785	-	1,406,450	-
Net pension liability	23,092,494	-	4,472,300	18,620,194	-
Total	<u>\$ 92,946,750</u>	<u>\$ 3,366,676</u>	<u>\$ 5,728,458</u>	<u>\$ 90,584,968</u>	<u>\$ 1,332,692</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 and pension liability 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			Bonds	
				Outstanding June 30, 2014	Accretion	Redeemed	Outstanding June 30, 2015	
8/10/06	9/1/22	4.25%-5.00%	\$ 16,490,000	\$ 12,850,000	\$ -	\$ 790,000	\$ 12,060,000	
8/10/06	9/1/31	4.74%-4.88%	12,011,422	17,591,715	858,885	-	18,450,600	
1/13/11	9/1/44	2.00%-6.25%	3,020,000	3,000,000	-	-	3,000,000	
1/13/11	9/1/45	2.35%-7.30%	19,660,012	25,406,860	1,883,499	-	27,290,359	
5/09/12	9/1/27	0.20%-2.57%	8,850,000	8,510,000	-	240,000	8,270,000	
			Total	<u>\$ 67,358,575</u>	<u>\$ 2,742,384</u>	<u>\$ 1,030,000</u>	<u>\$ 69,070,959</u>	

HILLSBOROUGH CITY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

Debt Service Requirements to Maturity

The bonds mature through 2046 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
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	2,048,874	776,501	2,825,375
2021-2025	11,750,536	5,476,539	17,227,075
2026-2030	9,895,641	14,394,359	24,290,000
2031-2035	7,947,385	26,205,115	34,152,500
2036-2040	8,538,026	49,526,974	58,065,000
2041-2045	8,119,743	44,661,507	52,781,250
2046	717,311	7,852,689	8,570,000
Total	<u>55,001,431</u>	<u>\$ 152,637,163</u>	<u>\$ 207,638,594</u>
Accretion	14,069,528		
Total	<u>\$ 69,070,959</u>		

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2015, amounted to \$157,900.

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	All Copiers	Total
Balance, July 1, 2014	\$ 48,348	\$ 20,955	\$ 33,512	\$ -	\$ 102,815
Additions	-	-	-	315,840	315,840
Deletions	48,348	20,955	33,512	63,168	165,983
Balance, June 30, 2015	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 252,672</u>	<u>\$ 252,672</u>

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2016	\$ 63,168
2017	63,168
2018	63,168
2019	63,168
Total	<u>252,672</u>
Less: Amount Representing Interest	(24,094)
Present Value of Minimum Lease Payments	<u>\$ 228,578</u>

Other Postemployment Benefits (OPEB) Asset/Obligation

The District's annual required contribution for the year ended June 30, 2015, was \$457,439, and contributions made by the District during the year were \$160,425. Interest on the net OPEB obligation was \$47,771, which resulted in an increase to the net OPEB obligation of \$344,785. As of June 30, 2015, the net OPEB obligation was \$1,406,450. 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, 2015

NOTE 11 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Special Reserve Non-Capital 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	36,223	-	-	-	-	36,223
Total Nonspendable	<u>41,223</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>41,223</u>
Restricted						
Educational programs	174,556	-	-	-	-	174,556
Food programs	-	-	-	-	7,451	7,451
Capital projects	-	-	-	-	34,848	34,848
Debt services	-	-	-	1,921,052	-	1,921,052
Total Restricted	<u>174,556</u>	<u>-</u>	<u>-</u>	<u>1,921,052</u>	<u>42,299</u>	<u>2,137,907</u>
Committed						
Deferred maintenance	-	-	-	-	89,326	89,326
Retiree benefits	-	1,003,599	-	-	-	1,003,599
Total Committed	<u>-</u>	<u>1,003,599</u>	<u>-</u>	<u>-</u>	<u>89,326</u>	<u>1,092,925</u>
Assigned						
Capital projects	-	-	196,641	-	-	196,641
Program carryover	421,396	-	-	-	-	421,396
Total Assigned	<u>421,396</u>	<u>-</u>	<u>196,641</u>	<u>-</u>	<u>-</u>	<u>618,037</u>
Unassigned						
Reserve for economic uncertainties	2,013,739	-	-	-	-	2,013,739
Unassigned	1,926,728	-	-	-	-	1,926,728
Total Unassigned	<u>3,940,467</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,940,467</u>
Total	<u>\$ 4,577,642</u>	<u>\$ 1,003,599</u>	<u>\$ 196,641</u>	<u>\$ 1,921,052</u>	<u>\$ 131,625</u>	<u>\$ 7,830,559</u>

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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 183 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 2014-2015, the District contributed \$160,425 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	\$ 457,439
Interest on net OPEB obligation	47,771
Annual OPEB cost (expense)	<u>505,210</u>
Contributions made	<u>(160,425)</u>
Increase in net OPEB obligation	344,785
Net OPEB obligation, beginning of year	<u>1,061,665</u>
Net OPEB obligation, end of year	<u><u>\$ 1,406,450</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
2015	\$ 505,210	\$ 160,425	32%	\$ 1,406,450
2014	347,407	139,419	40%	1,061,665
2013	336,783	124,313	37%	853,677

HILLSBOROUGH CITY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

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)
10/01/14	\$ -	\$ 3,569,240	\$ 3,569,240	0%	\$ 16,073,202	22.21%

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, 2014, 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, 2015, 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, 2015**

Workers' Compensation

For fiscal year 2015, 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	\$ 55,000,000
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 defined benefit pension plans maintained by agencies of the State of California. Academic employees are members of the California State Teachers' Retirement System (CalSTRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS).

The District implemented GASB Statements No. 68 and No. 71 for the fiscal year ended June 30, 2015. As a result, the District reported its proportionate share of the net pension liabilities, pension expense and deferred inflow of resources for each of the above plans and a deferred outflow of resources for each of the above plans as follows:

Pension Plan	Proportionate Share of Net Pension Liability	Deferred Outflow of Resources	Proportionate Share of Deferred Inflow of Resources	Proportionate Share of Pension Expense
CalSTRS	\$ 15,702,742	\$ 1,154,619	\$ 3,866,770	\$ 1,355,654
CalPERS	2,917,452	381,630	1,002,469	281,662
Total	<u>\$ 18,620,194</u>	<u>\$ 1,536,249</u>	<u>\$ 4,869,239</u>	<u>\$ 1,637,316</u>

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

The District contributes to the State Teachers Retirement Plan (STRP) administered by the California State Teachers' Retirement System (CalSTRS). STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2013, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

Benefits Provided

The STRP provides retirement, disability and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service.

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the state is the sponsor of the STRP and obligor of the trust. In addition, the state is both an employer and nonemployer contributing entity to the STRP.

The District contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

HILLSBOROUGH CITY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

The STRP provisions and benefits in effect at June 30, 2015, are summarized as follows:

	STRP Defined Benefit Program	
	On or before December 31, 2012	On or after January 1, 2013
Hire date		
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	8.15%	8.15%
Required employer contribution rate	8.88%	8.88%
Required state contribution rate	5.95%	5.95%

Contributions

Required member, District and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven year period. The contribution rates for each plan for the year ended June 30, 2015, are presented above and the District's total contributions were \$1,154,619.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related state support and the total portion of the net pension liability that was associated with the District were as follows:

Total net pension liability, including State share:	
District's proportionate share of net pension liability	\$ 15,702,742
State's proportionate share of the net pension liability associated with the District	9,481,993
Total	<u>\$ 25,184,735</u>

The net pension liability was measured as of June 30, 2014. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. At June 30, 2015, the District's proportion was 0.0269 percent.

HILLSBOROUGH CITY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

For the year ended June 30, 2015, the District recognized pension expense and state aid revenue of \$650,687 for support provided by the State. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>
Pension contributions subsequent to measurement date	\$ 1,154,619	\$ -
Differences between projected and actual earnings on plan investments	-	3,866,770
Total	<u>\$ 1,154,619</u>	<u>\$ 3,866,770</u>

The deferred outflow of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. The deferred inflow of resources will be amortized over a closed five-year period and will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Amortization</u>
2016	\$ 966,693
2017	966,693
2018	966,693
2019	966,691
Total	<u>\$ 3,866,770</u>

Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2013, and rolling forward the total pension liability to June 30, 2014. The financial reporting actuarial valuation as of June 30, 2013, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2013
Measurement date	June 30, 2014
Experience study	July 1, 2006 through June 30, 2010
Actuarial cost method	Entry age normal
Discount rate	7.60%
Investment rate of return	7.60%
Consumer price inflation	3.00%
Wage growth	3.75%

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series tables adjusted to fit CalSTRS experience.

HILLSBOROUGH CITY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant. Based on the model for CalSTRS consulting actuary' investment practice, a best estimate range was determined by assuming the portfolio is re-balanced annually and that the annual returns are log normally distributed and independently from year to year to develop expected percentile for the long-term distribution of annualized returns. The assumed asset allocation is based on board policy for target asset allocation in effect on February 2, 2012, the date the current experience study was approved by the board. Best estimates of 10-year geometric real rates of return and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-term Expected Real Rate of Return
Global equity	47%	4.50%
Private equity	12%	6.20%
Real estate	15%	4.35%
Inflation sensitive	5%	3.20%
Fixed income	20%	0.20%
Cash/liquidity	1%	0.00%

Discount Rate

The discount rate used to measure the total pension liability was 7.60 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.60 percent) and assuming that contributions, benefit payments and administrative expense occurred midyear. Based on these assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

The following presents the District's proportionate share of the net pension liability calculated using the current discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

Discount Rate	Net Pension Liability
1% decrease (6.60%)	\$ 24,476,467
Current discount rate (7.60%)	\$ 15,702,742
1% increase (8.6%)	\$ 8,387,049

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

California Public Employees Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the School Employer Pool (SEP) [and the Safety Risk 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. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions for funding, but not accounting purposes, and membership information is listed in the June 30, 2013 annual actuarial valuation report, Schools Pool Actuarial Valuation 2013. This report and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at: <https://www.calpers.ca.gov/page/forms-publications>.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of service credit, a benefit factor and the member's final compensation. Members hired on or before December 31, 2012, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or 52 for members hired on or after January 1, 2013), and has at least five years of credited service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The CalPERS provisions and benefits in effect at June 30, 2015, are summarized as follows:

	School Employer Pool (CalPERS)	
	On or before December 31, 2012	On or after January 1, 2013
Hire date		
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.000%	6.000%
Required employer contribution rate	11.771%	11.771%

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2015, are presented above and the total District contributions were \$461,889.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

As of June 30, 2015, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$2,917,452. The net pension liability was measured as of June 30, 2014. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2015, the District's proportion was 0.0257 percent.

For the year ended June 30, 2015, the District recognized pension expense of \$281,662. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 381,630	\$ -
Differences between projected and actual earnings on plan investments	-	1,002,468
Total	<u>\$ 381,630</u>	<u>\$ 1,002,468</u>

The deferred outflow of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. The deferred inflow of resources will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Amortization
2016	\$ 250,617
2017	250,617
2018	250,617
2019	250,617
Total	<u>\$ 1,002,468</u>

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

Actuarial Methods and Assumptions

Total pension liability for the SEP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2013, and rolling forward the total pension liability to June 30, 2014. The financial reporting actuarial valuation as of June 30, 2013, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2013
Measurement date	June 30, 2014
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7.50%
Investment rate of return	7.50%
Consumer price inflation	2.75%
Wage growth	3.00%

Mortality assumptions are based on mortality rates resulting from the most recent CalPERS experience study adopted by the CalPERS Board. For purposes of the post-retirement mortality rates, those revised rates include five years of projected ongoing mortality improvement using Scale AA published by the Society of Actuaries.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first ten years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-term Expected Real Rate of Return
Global equity	47%	5.25%
Global fixed income	19%	0.99%
Private equity	12%	6.83%
Real estate	11%	4.50%
Inflation sensitive	6%	0.45%
Infrastructure and Forestland	3%	4.50%
Liquidity	2%	-0.55%

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

The following presents the District's proportionate share of the net pension liability calculated using the current discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

<u>Discount rate</u>	<u>Net Pension Liability</u>
1% decrease (6.50%)	\$ 5,117,878
Current discount rate (7.50%)	\$ 2,917,452
1% increase (8.50%)	\$ 1,078,775

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 5.679 percent of the 2015 annual payroll and 5.541 and 5.176 percent of the 2014 and 2013 annual payroll, respectively. The CalSTRS contribution to the District for the fiscal years ending June 30, 2015, 2014, and 2013, were \$650,688, \$635,775, and \$593,838, 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, 2015.

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, 2015.

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

Construction Commitments

As of June 30, 2015, the District had unfinished capital project commitments of \$80,064 with respect to the West Elementary West Wing. The project is expected to be completed in July 2015.

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, 2015, the District made payments of \$417,212 to SMCSIG.

NOTE 17 - SUBSEQUENT EVENTS

Tax and Revenue Anticipation Notes

The District issued \$3,185,000 of Tax and Revenue Anticipation Notes dated July 1, 2015. The notes mature on June 30, 2016, 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 01, 2016 and remaining principal and interest be deposited by April 01, 2016.

All Other Subsequent Events

The District's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the statement of net position dated through December 15, 2015, 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. 68, *Accounting and Financial Reporting for Pensions* GASB Statement No 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, in the current year. The restatement does not include deferred inflows of resources, as this information was not available. As a result, the effect on the current fiscal year is as follows:

Statement of Net Position

Net Position - Beginning	\$ (2,874,263)
Restatement related to pension activities	(21,796,415)
Net Position - Beginning as Restated	<u><u>\$ (24,670,678)</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

HILLSBOROUGH CITY SCHOOL DISTRICT

**GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2015**

	Budgeted Amounts		Actual	Variances -
	Original	Final		Favorable (Unfavorable)
				Final to Actual
REVENUES				
Local Control Funding Formula	\$ 16,042,370	\$ 16,447,863	\$ 16,697,377	\$ 249,514
Federal sources	284,524	286,372	296,474	10,102
Other state sources	280,450	1,139,349	1,314,993	175,644
Other local sources	6,342,789	6,570,500	6,629,962	59,462
Total Revenues	22,950,133	24,444,084	24,938,806	494,722
EXPENDITURES				
Current				
Certificated salaries	12,790,463	13,295,155	13,274,151	21,004
Classified salaries	2,656,753	2,878,231	2,798,507	79,724
Employee benefits	3,383,349	4,249,622	4,248,501	1,121
Books and supplies	1,212,487	1,315,751	1,225,868	89,883
Services and operating expenditures	3,121,655	3,413,345	3,234,333	179,012
Other outgo	-	16,664	94,113	(77,449)
Capital outlay	143,588	160,724	295,607	(134,883)
Debt service - principal	-	-	50,365	(50,365)
Debt service - interest and other	-	-	12,805	(12,805)
Total Expenditures	23,308,295	25,329,493	25,234,250	95,243
Excess of Revenues Over Expenditures	(358,162)	(885,409)	(295,444)	589,965
Other Financing Sources (Uses):				
Transfers in	44,500	44,500	44,500	-
Other sources	-	-	278,943	(278,943)
Transfers out	(330,000)	(330,000)	(330,000)	-
Net Financing Uses	(285,500)	(285,500)	(6,557)	(278,943)
NET CHANGE IN FUND BALANCES	(643,662)	(1,170,909)	(302,001)	868,908
Fund Balance - Beginning	4,343,981	4,343,981	4,343,981	-
Fund Balance - Ending - Non GAAP	\$ 3,700,319	\$ 3,173,072	4,041,980	\$ 868,908
Fund Balance - Special Reserve Other			535,662	
Fund Balance - Ending - GAAP			\$ 4,577,642	

HILLSBOROUGH CITY SCHOOL DISTRICT

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING
PROGRESS
FOR THE YEAR ENDED JUNE 30, 2015**

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]
10/01/14	\$ -	\$ 3,569,240	\$ 3,569,240	0%	\$ 16,073,202	22.21%
10/01/12	-	2,859,548	2,859,548	0%	14,126,444	20.24%
09/01/10	-	2,603,901	2,603,901	0%	14,142,709	18.41%

HILLSBOROUGH CITY SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY FOR THE YEAR ENDED JUNE 30, 2015

	<u>2015</u>
CalSTRS	
District's proportion of the net pension liability	<u>0.0269%</u>
District's proportionate share of the net pension liability	\$ 15,702,742
State's proportionate share of the net pension liability associated with the District	<u>9,481,993</u>
Total	<u>\$ 25,184,735</u>
District's covered - employee payroll	<u>\$ 12,133,816</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>129.41%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>77%</u>
 CalPERS	
District's proportion of the net pension liability	<u>0.0257%</u>
District's proportionate share of the net pension liability	<u>\$ 2,917,452</u>
District's covered - employee payroll	<u>\$ 2,724,309</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>107.09%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>83%</u>

Note : In the future, as data become available, ten years of information will be presented.

HILLSBOROUGH CITY SCHOOL DISTRICT

SCHEDULE OF DISTRICT PENSION CONTRIBUTIONS FOR THE YEAR ENDED JUNE 30, 2015

	<u>2015</u>
CalSTRS	
Contractually required contribution	\$ 1,154,619
Contributions in relation to the contractually required contribution	<u>(1,154,619)</u>
Contribution deficiency (excess)	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 13,003,884</u>
Contributions as a percentage of covered - employee payroll	<u>9%</u>
 CalPERS	
Contractually required contribution	\$ 461,889
Contributions in relation to the contractually required contribution	<u>(461,889)</u>
Contribution deficiency (excess)	<u>\$ -</u>
District's covered - employee payroll	<u>\$ 2,809,325</u>
Contributions as a percentage of covered - employee payroll	<u>16%</u>

Note : In the future, as data become available, ten years of information will be presented.

SUPPLEMENTARY INFORMATION

HILLSBOROUGH CITY SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015**

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	\$ 24,252
Individuals with Disabilities Act:			
Basic Local Assistance Entitlement, Part B	84.027	13379	246,944
Preschool Grants, Part B	84.173	13430	8,294
Preschool Local Entitlement, Part B	84.027A	13682	16,882
Preschool Staff Development, Part B	84.173A	13431	101
Total Expenditures of Federal Awards			<u>\$ 296,474</u>

See accompanying note to supplementary information.

HILLSBOROUGH CITY SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE FOR THE YEAR ENDED JUNE 30, 2015

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>
Margi Power	President	2015
Don Geddis	Vice President	2017
Gilbert Wai	Clerk	2015
Greg Dannis	Member	2015
Lynne Esselstein	Member	2017

ADMINISTRATION

Anthony Ranii	Superintendent
Joyce Shen	Business Manager

See accompanying note to supplementary information.

HILLSBOROUGH CITY SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE FOR THE YEAR ENDED JUNE 30, 2015

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	616.37	617.61
Fourth through sixth	531.57	531.66
Seventh and eighth	347.34	344.84
Total Regular ADA	<u>1,495.28</u>	<u>1,494.11</u>
Extended Year Special Education		
Transitional kindergarten through third	0.22	0.22
Fourth through sixth	0.40	0.40
Total Extended Year Special Education	<u>0.62</u>	<u>0.62</u>
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	2.63	2.72
Fourth through sixth	2.66	2.74
Seventh and eighth	2.81	2.82
Total Special Education, Nonpublic, Nonsectarian Schools	<u>8.10</u>	<u>8.28</u>
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.17	0.17
Fourth through sixth	0.10	0.10
Seventh and eighth	0.47	0.47
Total Extended Year Special Education, Nonpublic, Nonsectarian Schools	<u>0.74</u>	<u>0.74</u>
Total ADA	<u>1,504.74</u>	<u>1,503.75</u>

See accompanying note to supplementary information.

HILLSBOROUGH CITY SCHOOL DISTRICT

**SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2015**

Grade Level	1986-87 Minutes Requirement	Reduced 1986-87 Minutes Requirement	2014-15 Actual Minutes	Number of Days Traditional Calendar	Status
Kindergarten	36,000	35,000	41,400	180	Complied
Grades 1 - 3	50,400	49,000			
Grade 1			51,960	180	Complied
Grade 2			51,960	180	Complied
Grade 3			53,955	180	Complied
Grades 4 - 6	54,000	52,500			
Grade 4			55,935	180	Complied
Grade 5			55,935	180	Complied
Grade 6			61,995	180	Complied
Grades 7 - 8	54,000	52,500			
Grade 7			61,995	180	Complied
Grade 8			61,995	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, 2015**

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, 2015, Unaudited Actuals	\$ 4,041,980	\$ 535,662
To conform with GASB 54, the District consolidated the Special Reserve Fund for Other Than Capital Outlay into the General Fund.	535,662	(535,662)
Balance, June 30, 2015, Audited Financial Statements	<u>\$ 4,577,642</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, 2015

	(Budget)			
	2016 ¹	2015	2014	2013
GENERAL FUND⁴				
Revenues	\$ 25,456,905	\$ 24,938,806	\$ 23,761,479	\$ 22,010,647
Other sources and transfers in	44,500	323,443	44,500	44,500
Total Revenues and Other Sources	<u>25,501,405</u>	<u>25,262,249</u>	<u>23,805,979</u>	<u>22,055,147</u>
Expenditures	24,911,851	25,234,250	22,936,932	21,503,584
Other uses and transfers out	50,000	330,000	330,000	-
Total Expenditures and Other Uses	<u>24,961,851</u>	<u>25,564,250</u>	<u>23,266,932</u>	<u>21,503,584</u>
INCREASE (DECREASE) IN FUND BALANCE	<u>\$ 539,554</u>	<u>\$ (302,001)</u>	<u>\$ 539,047</u>	<u>\$ 551,563</u>
ENDING FUND BALANCE	<u>\$ 4,581,534</u>	<u>\$ 4,041,980</u>	<u>\$ 4,343,981</u>	<u>\$ 3,804,934</u>
AVAILABLE RESERVES^{2,3}	<u>\$ 4,252,015</u>	<u>\$ 3,940,467</u>	<u>\$ 3,574,818</u>	<u>\$ 3,272,737</u>
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	<u>17.03%</u>	<u>15.41%</u>	<u>15.36%</u>	<u>15.22%</u>
LONG-TERM DEBT	<u>\$ 89,252,276</u>	<u>\$ 90,584,968</u>	<u>\$ 69,854,256</u>	<u>\$ 67,944,873</u>
K-12 AVERAGE DAILY ATTENDANCE AT P-2	<u>1,505</u>	<u>1,505</u>	<u>1,488</u>	<u>1,479</u>

The General Fund balance has increased by \$237,046 over the past two years. The fiscal year 2015-2016 budget projects an increase of \$539,554. 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, and anticipates incurring an operating surplus during the 2015-2016 fiscal year.

Total long-term obligations have increased by \$22,640,095 over the past two years. The significant increase is due to implementation of GASB 68, recognizing \$18.6 million pension liability.

Average daily attendance has increased by 26 over the past two years. ADA is anticipated to be constant during fiscal year 2015-2016.

¹ Budget 2016 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.

³ On-behalf payments of \$650,688, \$635,775, and \$593,838, have been included from the actuals and the calculation of the available reserves percentage for fiscal years ending June 30, 2015, 2014, and 2013, 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.

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HILLSBOROUGH CITY SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2015**

	Cafeteria Fund	Deferred Maintenance Fund	Building Fund
ASSETS			
Deposits and investments	\$ 6,786	\$ 89,165	\$ -
Receivables	665	161	13
Total Assets	\$ 7,451	\$ 89,326	\$ 13
LIABILITIES AND FUND BALANCES			
Liabilities:			
Deferred revenue	\$ -	\$ -	\$ -
Total Liabilities	-	-	-
Fund Balances:			
Restricted	7,451	-	13
Committed	-	89,326	-
Total Fund Balances	7,451	89,326	13
Total Liabilities and Fund Balances	\$ 7,451	\$ 89,326	\$ 13

See accompanying note to supplementary information.

Capital Facilities Fund	Total Non-Major Governmental Funds
\$ 30,052	\$ 126,003
4,783	5,622
<u>\$ 34,835</u>	<u>\$ 131,625</u>
<u>\$ -</u>	<u>\$ -</u>
-	-
34,835	42,299
-	89,326
<u>34,835</u>	<u>131,625</u>
<u>\$ 34,835</u>	<u>\$ 131,625</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, 2015**

	Cafeteria Fund	Deferred Maintenance Fund	Building Fund
REVENUES			
Local sources	\$ 3,831	\$ 789	\$ 17,751
Total Revenues	<u>3,831</u>	<u>789</u>	<u>17,751</u>
EXPENDITURES			
Pupil Services:			
Food services	29	-	-
Plant services	-	36,387	-
Facility acquisition and construction	-	-	120,716
Total Expenditures	<u>29</u>	<u>36,387</u>	<u>120,716</u>
NET CHANGE IN FUND BALANCES	3,802	(35,598)	(102,965)
Fund Balance - Beginning	3,649	124,924	102,978
Fund Balance - Ending	<u>\$ 7,451</u>	<u>\$ 89,326</u>	<u>\$ 13</u>

See accompanying note to supplementary information.

Capital Facilities Fund	Total Non-Major Governmental Funds
\$ 75,170	\$ 97,541
<u>75,170</u>	<u>97,541</u>
-	29
24,533	60,920
119,485	240,201
<u>144,018</u>	<u>301,150</u>
(68,848)	(203,609)
103,683	335,234
<u>\$ 34,835</u>	<u>\$ 131,625</u>

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2015

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.

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Unaudited Actual Financial Report to the audited financial statements.

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

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

Board of Trustees
Hillsborough City School District
Hillsborough, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the Hillsborough Recreation a discretely presented component unit, 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, 2015, and the related notes to the financial statements, which collectively comprise Hillsborough City School District's basic financial statements, and have issued our report thereon dated December 15, 2015

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 18 to the financial statements, the District adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. 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.

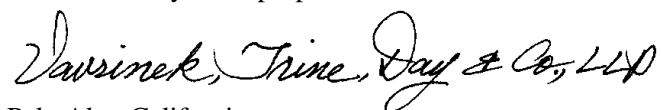
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 15, 2015



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 compliance with the types of compliance requirements as identified in the *2014-2015 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of the Hillsborough City School District's State government programs as noted below for the year ended June 30, 2015.

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 Hillsborough City School 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 *2014-2015 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. 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 Hillsborough City School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of Hillsborough City School District's compliance with those requirements.

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, 2015.

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:

	<u>Procedures Performed</u>
Attendance Accounting:	
Attendance Reporting	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	No, see below
Independent Study	No, see below
Continuation Education	No, see below
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	No, see below
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	No, see below
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	No, see below
Regional Occupational Centers or Programs Maintenance of Effort	No, see below
Adult Education Maintenance of Effort	No, see below
California Clean Energy Jobs Act	Yes
After School Education and Safety Program:	
General Requirements	No, see below
After School	No, see below
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Common Core Implementation Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Charter Schools:	
Attendance	No, see below
Mode of Instruction	No, see below
Non Classroom-Based Instruction/Independent Study	No, see below
Determination of Funding for Non Classroom-Based Instruction	No, see below
Annual Instruction Minutes Classroom-Based	No, see below
Charter School Facility Grant Program	No, see below

We did not test Kindergarten Continuance because there were no retained kindergartners during the year.

The District does not offer Independent Study, Continuation Education program, Early Retirement Incentive, Juvenile Court Schools, Middle or Early college High schools, Transportation Maintenance of Effort, Regional Occupational Centers, Adult Education, After or Before School Education and Safety program, and Charter Schools, therefore, we did not perform procedures related to them.

Wassinek, Trine, Day & Co., LLP
Palo Alto, California
December 15, 2015

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

HILLSBOROUGH CITY SCHOOL DISTRICT

**SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2015**

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, 2015**

None reported.

HILLSBOROUGH CITY SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015**

None reported.

HILLSBOROUGH CITY SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015**

There were no audit findings reported in the prior year's schedule of financial statement findings.