

**HILLSBOROUGH CITY SCHOOL DISTRICT
COUNTY OF SAN MATEO
HILLSBOROUGH, CALIFORNIA**

AUDIT REPORT

JUNE 30, 2016



CHAVAN & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS
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Hillsborough City School District
County of San Mateo

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Hillsborough City School District
County of San Mateo

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FINANCIAL
SECTION



INDEPENDENT AUDITOR'S REPORT

The Honorable Board of Trustees
Hillsborough City School District
Hillsborough, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hillsborough City School District (the District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

District 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. 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 District, as of June 30, 2016 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

Deficit Net Position

As of June 30, 2016, the District's net position in its Government-wide financial statements was at a deficit mostly because of the long-term pension liabilities and deferrals as reported in Note 7 and Note 8. Our opinion is not modified with respect to this matter.

Other Matters

New Accounting Pronouncements

As discussed in Note 1 to the financial statements, the District adopted the provisions GASB Statement No. 72, *Fair Value Measurement and Application*, GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, and GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, effective June 30, 2016. Our opinion is not modified with respect to these matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of pension contributions, schedule of proportionate share of net pension liabilities, and OPEB schedule of funding progress, as listed in the table of contents, 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.



Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual nonmajor fund financial statements and the other information listed in the supplementary section of the table of contents, as required by the *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the other information listed in the supplementary section of the table of contents are the responsibility of management and were 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 combining and individual nonmajor fund financial statements and the other information listed in the supplementary section of the table of contents are 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 November 20, 2016 on our consideration of The District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 The District's internal control over financial reporting and compliance.

C & A LLP

November 20, 2016
San Jose, California

Management's Discussion and Analysis

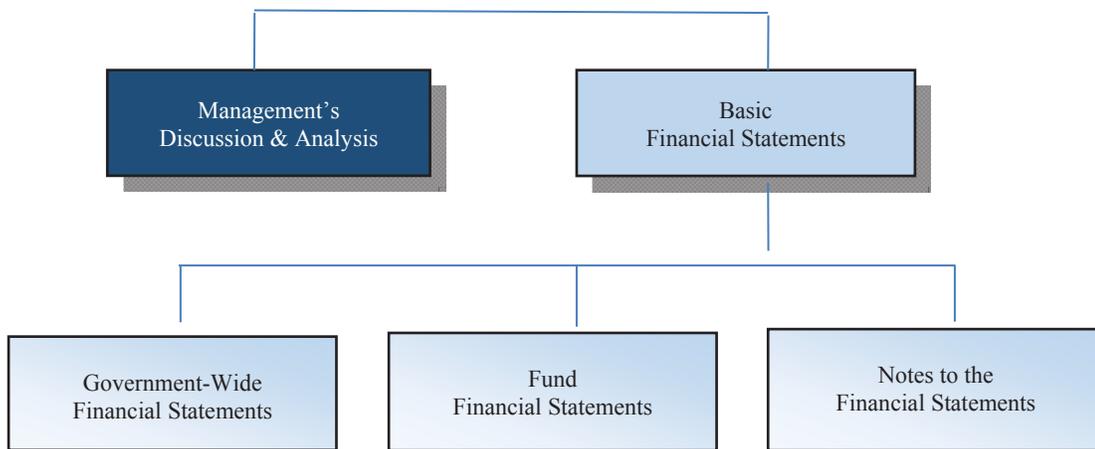
Hillsborough City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016

INTRODUCTION

The Management's Discussion and Analysis (MD&A) is a required section of the District's annual financial report, as shown in the overview below. The purpose of the MD&A is to present a discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2016. This report will (1) focus on significant financial issues, (2) provide an overview of the District's financial activity, (3) identify changes in the District's financial position, (4) identify any individual fund issues or concerns, and (5) provide descriptions of significant asset and debt activity.

This information, presented in conjunction with the annual Basic Financial Statements, is intended to provide a comprehensive understanding of the District's operations and financial standing.

Required Components of the Annual Financial Report



FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year ended June 30, 2016 were as follows:

- Total net position decreased by \$3,605,065 (-12.43%), which included a decrease in unrestricted net position of \$17,252,270, from June 30, 2015 to June 30, 2016, mainly due to an increase in net pension obligations of \$2,899,604, the net OEB obligation of \$361,170, increases to accreted interest of \$2,915,535 and a reclassification from net investment in capital assets of \$14,069,525 for accreted interest that should have been reported against unrestricted net position.
- The District recorded deferred outflows of resources of \$2,656,723 and deferred inflows of resources of \$2,807,565 as required by GASB 68 for pension accounting and reporting. Deferred outflows of resources are technically not assets but increase the Statement of Net Position similar to an asset and deferred inflows of resources are technically not liabilities but decrease the Statement of Net Position similar to liabilities. See Note 1 in the notes to financial statements for a definition.
- The District had \$32,498,160 in government-wide expenses which is 112% of total government-wide revenues. Program specific revenues in the form of operating grants and contributions and charges for services accounted for \$1,056,690, or 3.66%, of the total revenues of \$28,893,095.

Hillsborough City School District

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2016

- General revenue of \$27,836,405 which includes property taxes, unrestricted federal and state grants and LCFF sources, was 96.34% of total revenues in 2016 versus 94.53% in 2015.
- The fund balances of all governmental funds increased by \$517,001, which is a 6.6% increase from 2015 changes in operating revenues over expenditures in the General Fund and Bond Interest and Redemption Fund.
- Total governmental fund revenues and expenditures totaled \$28,921,804 and \$28,404,803, respectively.

USING THE ANNUAL REPORT

This annual report consists of a series of basic financial statements and notes to those statements. These statements are organized so the reader can understand the District as an entire operating entity. The statements provide an increasingly detailed look at specific financial activities.

The Statement of Net Position and Statement of Activities comprise the government-wide financial statements and provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other non-major funds presented in total in one column. In the case of the District, the General Fund is by far the most significant fund. The basic financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

OVERVIEW OF THE FINANCIAL STATEMENTS

The full annual financial report is a product of three separate parts: the basic financial statements, supplementary information, and this section, the Management's Discussion and Analysis. The three sections together provide a comprehensive financial overview of the District. The basic financials are comprised of two kinds of statements that present financial information from different perspectives, government-wide and fund statements.

- Government-wide financial statements, which comprise the first two statements, provide both short-term and long-term information about the District's overall financial position.
- Individual parts of the District, which are reported as fund financial statements, focus on reporting the District's operations in more detail. These fund financial statements comprise the remaining statements.
- Notes to the financials, which are included in the financial statements, provide more detailed data and explain some of the information in the statements. The required supplementary information section provides further explanations and provides additional support for the financial statements.

Hillsborough City School District

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2016

GOVERNMENT-WIDE FINANCIAL STATEMENTS - STATEMENT OF NET POSITION AND THE STATEMENT OF ACTIVITIES

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during the fiscal year 2015 - 2016?" The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting practices used by most private-sector companies. This basis of accounting takes into account all of the current year revenues and expenses regardless of when cash is received or paid.

These two statements report the District's net position and changes in net position. This change in net position is important because it tells the reader that, for the District as a whole, the financial position of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, and some not. Non-financial factors include the District's property tax base, current property tax laws in California restricting revenue growth, facility conditions, required educational programs and other factors.

In the Statement of Net Position and the Statement of Activities, the District reports governmental activities. Governmental activities are the activities where most of the District's programs and services are reported including, but not limited to, instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities. The District does not have any business type activities.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The analysis of the District's major funds begins with the Balance Sheet. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. These fund financial statements focus on each of the District's most significant funds. The District's major governmental funds are the General Fund, Special Reserve Fund for Capital Outlay and the Bond Interest and Redemption Fund.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in the future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Hillsborough City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016

THE DISTRICT AS A WHOLE

Recall that the Statement of Net Position provides the perspective of the District as a whole. Table 1 provides a summary of the District's net position as of June 30, 2016 as compared to June 30, 2015:

Table 1 - Summary of Statement of Net Position				
Description	2016	2015	Change	Percentage Change
Assets				
Current Assets	\$ 8,770,706	\$ 8,387,987	\$ 382,719	4.56%
Capital Assets	54,721,340	57,349,299	(2,627,959)	-4.58%
Total Assets	\$ 63,492,046	\$ 65,737,286	\$ (2,245,240)	-3.42%
Total Deferred Outflows of Resources	\$ 2,656,723	\$ 1,622,912	\$ 1,033,811	38.91%
Liabilities				
Current Liabilities	\$ 754,146	\$ 905,685	\$ (151,539)	-16.73%
Long-term Liabilities	95,191,817	90,584,968	4,606,849	5.09%
Total Liabilities	\$ 95,945,963	\$ 91,490,653	\$ 4,455,310	4.87%
Total Deferred Inflows of Resources	\$ 2,807,565	\$ 4,869,239	\$ (2,061,674)	-73.43%
Net Position				
Net Investment in Capital Assets	\$ (105,881)	\$ (12,964,449)	\$ 12,858,568	-99.18%
Restricted	2,578,274	1,789,637	788,637	44.07%
Unrestricted	(35,077,152)	(17,824,882)	(17,252,270)	96.79%
Total Net Position	\$ (32,604,759)	\$ (28,999,694)	\$ (3,605,065)	12.43%

During the year, deferred outflows of resources increased by 38.91%, deferred inflows of resources decreased by 73.43%, and long-term liabilities increased by 5.09% because of changes in net pension amounts and actuarial assumptions related to GASB 68. GASB 68 requires all local governments that participate in cost sharing pension plans to record its proportionate share of net pension liabilities from pension plans in the government-wide financial statements. There was no impact on fund balance as a result of GASB 68.

Hillsborough City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016

Table 2 shows the changes in net position for fiscal year 2016 as compared to 2015:

Table 2 - Summary of Changes in Statement of Activities				
Description	2016	2015	Change	Percentage Change
Revenues				
Program revenues	\$ 1,056,690	\$ 1,580,351	\$ (523,661)	-33.14%
General revenues:				
Property taxes	21,934,954	20,533,980	1,400,974	6.82%
Grants and entitlements - unrestricted	1,547,943	821,366	726,577	88.46%
Other	4,353,508	5,936,226	(1,582,718)	-26.66%
Total Revenues	28,893,095	28,871,923	21,172	0.07%
Program Expenses				
Instruction	19,949,813	20,491,406	(541,593)	-2.64%
Instruction-related services	3,020,972	3,178,425	(157,453)	-4.95%
Pupil services	1,066,744	1,071,641	(4,897)	-0.46%
General administration	1,765,829	1,796,727	(30,898)	-1.72%
Plant services	2,348,769	2,586,913	(238,144)	-9.21%
Community services	212,720	245,712	(32,992)	-13.43%
Other outgo	103,145	94,113	9,032	9.60%
Interest on long-term debt	4,030,168	3,736,002	294,166	7.87%
Total Expenses	32,498,160	33,200,939	(702,779)	-2.12%
Change in Net Position	(3,605,065)	(4,329,016)	723,951	-16.72%
Begininng Net Position	(28,999,694)	(24,670,678)	(4,329,016)	17.55%
Ending Net Position	\$ (32,604,759)	\$ (28,999,694)	\$ (3,605,065)	12.43%

The District's expenses for instructional services was 71% of total expenses in 2015-16 as compared to 71% in 2014-15. The purely administrative activities of the District accounted for 5% of total costs in 2015-16 as compared to 5% in 2014-15. Interest on long-term debt represented 12% of total expenses in 2015-16 as compared to 11% in 2014-15. Total expenses were 112% of revenue in 2015-16 versus 115% in 2014-15, which is reflected in the deficit change in net position of \$(3,605,065) million in 2015-16 versus a deficit change in net position of \$(4,329,016) million in 2014-15. In regard to revenue, program revenues were 3.66% of total revenues in 2015-16 and 5.47% of total revenues in 2014-15.

Hillsborough City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016

GOVERNMENTAL ACTIVITIES

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows the net cost of services as compared to the prior fiscal year. That is, it identifies the cost of these services supported by general revenues for the government-wide statements (not the General Fund).

Table 3 - Net Cost of Services				
Description	2016	2015	Change	Percentage Change
Instruction	\$ 19,103,947	\$ 19,219,531	\$ (115,584)	-0.6%
Instruction-related services	2,966,925	3,030,175	(63,250)	-2.1%
Pupil services	1,047,360	1,020,462	26,898	2.6%
General administration	1,765,829	1,789,433	(23,604)	-1.3%
Plant services	2,248,679	2,485,160	(236,481)	-9.5%
Community services	212,720	245,712	(32,992)	-13.4%
Other outgo	65,842	94,113	(28,271)	-30.0%
Interest on long-term debt	4,030,168	3,736,002	294,166	7.9%
Total Net Cost of Services	\$ 31,441,470	\$ 31,620,588	\$ (179,118)	-0.57%

Instruction expenditures include activities directly dealing with the teaching of pupils.

Instruction-related Services include the activities involved with assisting staff with the content and process of educating students.

Pupil Services include guidance and counseling, psychological, health, speech and testing services, transporting students, as well as preparing, delivering, and serving meals to students.

General Administration reflects expenditures associated with the administrative and financial supervision of the School District. Typical functions would include the Board of Trustees and Superintendent, Human Resources, Data Processing and Business Services.

Plant Services involve keeping the school grounds, buildings, and equipment in effective working condition.

Community services represent the expenditures associated with local recreation programs and activities.

Other Outgo includes tuitions and transfers of resources between the District and other educational agencies for services provided to District students.

Hillsborough City School District
 Management's Discussion and Analysis
 For the Fiscal Year Ended June 30, 2016

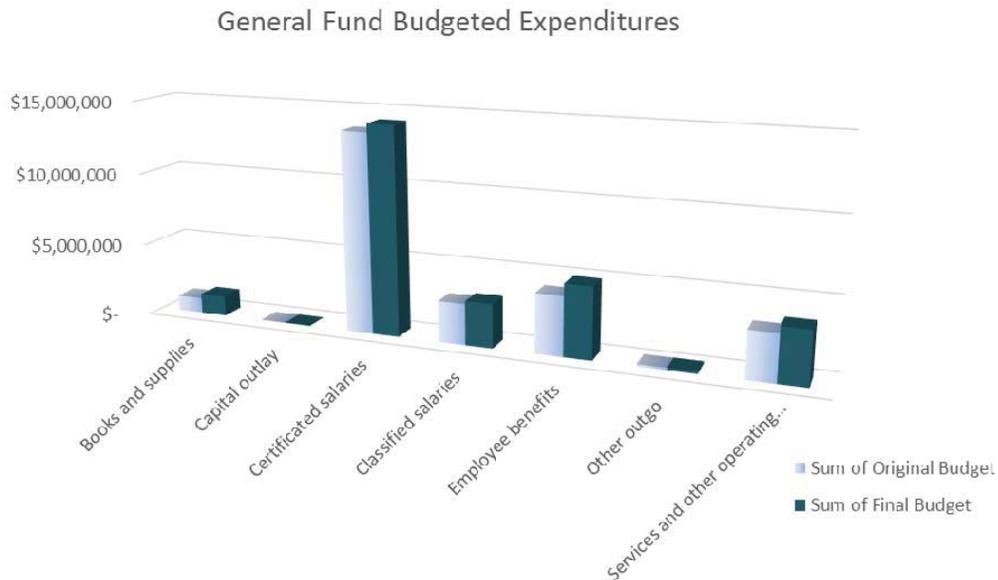
THE DISTRICT'S FUNDS

Table 4 provides an analysis of the District's fund balances and the total change in fund balances from the prior year.

Table 4 - Summary of Fund Balances				
Description	2016	2015	Change	Percentage Change
General Fund	\$ 6,029,185	\$ 5,581,241	\$ 447,944	8.0%
Special Reserve Fund for Capital Outlay Projects	105,702	196,641	(90,939)	-46.2%
Bond Interest and Redemption Fund	2,106,457	1,921,052	185,405	9.7%
Nonmajor Funds	106,216	131,625	(25,409)	-19.3%
Total Fund Balances	\$ 8,347,560	\$ 7,830,559	\$ 517,001	6.6%

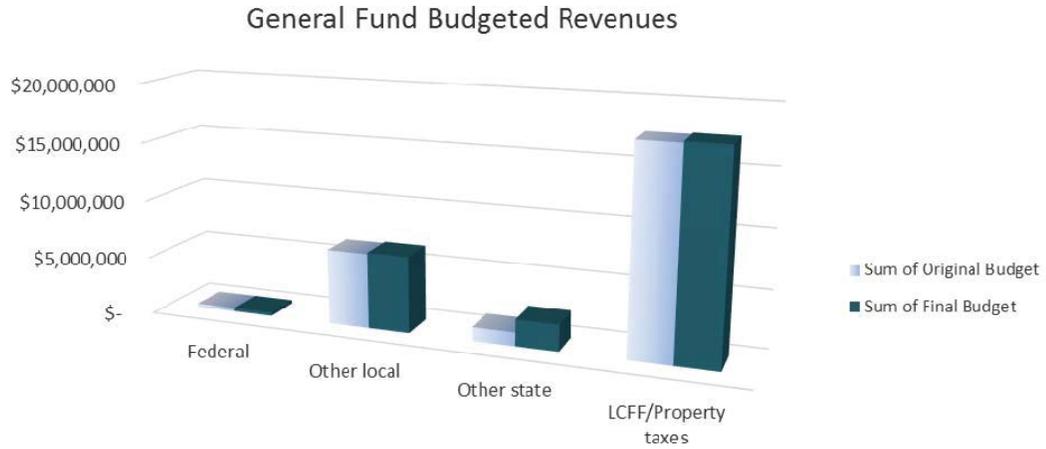
FINANCIAL ANALYSIS OF THE GENERAL FUND AND BUDGETING HIGHLIGHTS

The District's budget is prepared according to California law and in the modified accrual basis of accounting. During the course of the 2015-16 fiscal year, the District revised its General Fund budget twice, at 1st Interim and 2nd interim. The overall increase in expenditures was due to increases in employee salaries, benefits and books and supplies. The General Fund budget basis revenue increased by \$1,339,207 from original to final budgets.



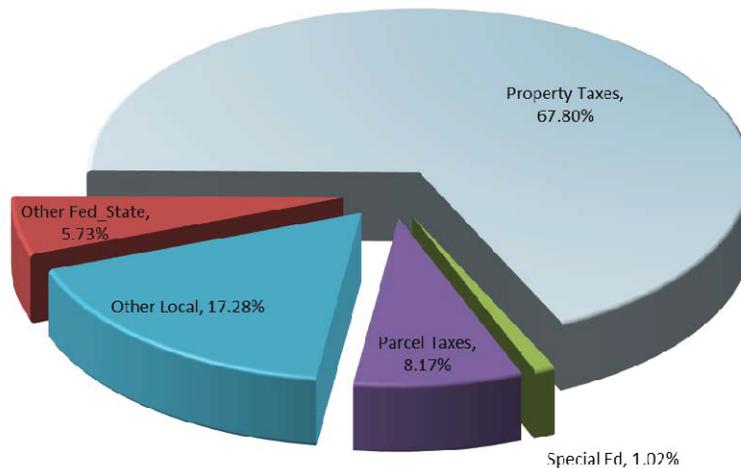
Hillsborough City School District
 Management's Discussion and Analysis
 For the Fiscal Year Ended June 30, 2016

The following summarizes the District's budgeted revenue in the General Fund:



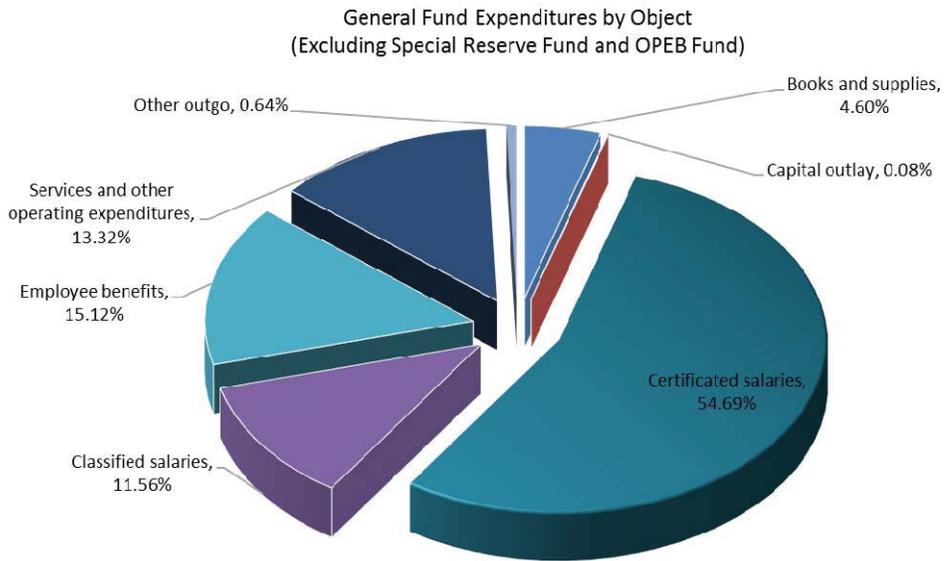
The District is community-funded basic aid, which means that the District relies on local property taxes rather than State aid for revenue. Total revenues for 2015-16 increased 5.66% from the prior year to \$26,350,368. Revenues increased \$1,167,538 from local property taxes and \$82,350 from the parcel tax, and \$170,818 from other federal and state resources. Locally generated revenues amounted to 85% of the District's total revenues. Its important to note that the following pie charts only include fund 10, the general operating fund of the District, whereas the General Fund as included in the audited basic financial statements, required supplementary information, supplementary information and state compliance information presented elsewhere in this report, includes fund 01, fund 17 (Special Reserve fund for Other Than Capital Outlay Projects) and fund 20 (OPEB Fund) as required by GASB 54.

General Fund Revenues by Object
 (Excluding Special Reserve Fund and OPEB Fund)

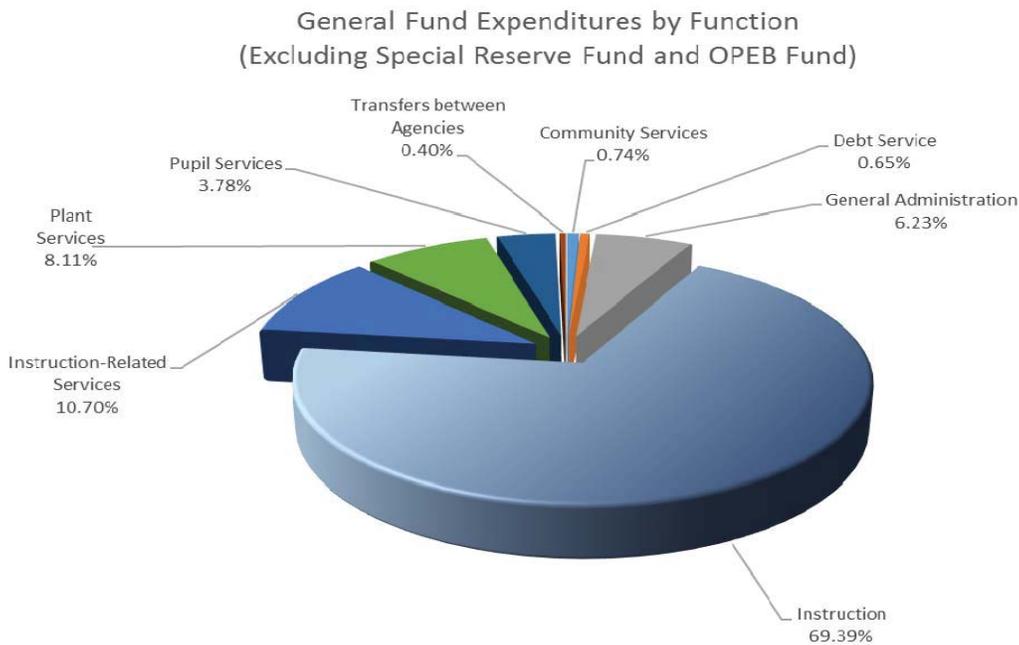


Hillsborough City School District
 Management's Discussion and Analysis
 For the Fiscal Year Ended June 30, 2016

Expenditures increased 3% 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 \$25,994,821 expended during 2015-16, 81.37% was spent on salaries and benefits. See the charts to the left for a breakdown of general fund expenditures by Object.



As seen in the chart below, the District spent 80.09% of total general fund expenditures on instruction and instruction-related activities.



Hillsborough City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016

CAPITAL ASSETS

Table 5 shows June 30, 2016 balances as compared to June 30, 2015.

Table 5 - Summary of Capital Assets Net of Depreciation				
Description	2016	2015	Change	Percentage Change
Land	\$ 228,711	\$ 228,711	\$ -	0.00%
Buildings	574,112	650,080	(75,968)	-11.69%
Site Improvements	53,267,363	55,464,911	(2,197,548)	-3.96%
Equipment	651,154	1,005,597	(354,443)	-35.25%
Total Capital Assets - Net	\$ 54,721,340	\$ 57,349,299	\$ (2,627,959)	-4.58%

LONG TERM DEBT

Table 6 summarizes the percent changes in Long-term Debt over the past two years.

Table 6 - Summary of Long-term Liabilities				
Description	2016	2015	Change	Percentage Change
General Obligation Bonds	\$ 71,812,081	\$ 70,171,846	\$ 1,640,235	2.34%
Capital Lease Obligations	-	228,578	(228,578)	-100.00%
Net Pension Obligations	21,519,798	18,620,194	2,899,604	15.57%
Net OPEB Obligation	1,767,620	1,406,450	361,170	25.68%
Compensated Absences	92,318	157,900	(65,582)	-41.53%
Total Long-term Liabilities	\$ 95,191,817	\$ 90,584,968	\$ 4,606,849	5.09%

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, 17.3% is voluntarily generated (above any assessed taxes) from parents and the community. This revenue source must continue in order to maintain programs as they currently exist.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, parents, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have 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

Basic Financial Statements

Hillsborough City School District

Statement of Net Position

June 30, 2016

	Governmental Activities
Assets	
Cash and investments	\$ 7,840,045
Receivables	916,468
Prepaid expenses	14,193
Capital assets - net	54,721,340
Total Assets	<u>\$ 63,492,046</u>
Deferred Outflows of Resources	
Pension plan contributions	\$ 2,656,723
Total Deferred Outflows of Resources	<u>\$ 2,656,723</u>
Liabilities	
Accounts payable	\$ 364,813
Unearned revenue	58,333
Accrued interest	331,000
Long-term liabilities:	
Due within one year	1,383,026
Due after one year	93,808,791
Total Liabilities	<u>\$ 95,945,963</u>
Deferred Inflows of Resources	
Net difference between projected and actual earnings from pension plans	\$ 2,807,565
Total Deferred Inflows of Resources	<u>\$ 2,807,565</u>
Net Position	
Net investment in capital assets	\$ (105,881)
Restricted for:	
Educational programs	379,778
Debt service	2,106,457
Capital projects	81,374
Cafeteria programs	10,665
Unrestricted	(35,077,152)
Total Net Position	<u>\$ (32,604,759)</u>

The notes to basic financial statements are an integral part of this statement

Hillsborough City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2016

	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Position
				Governmental Activities
Governmental activities:				
Instruction	\$ 19,949,813	\$ 273,486	\$ 572,380	\$ (19,103,947)
Instruction-related services:				
Supervision of instruction	1,460,935	23,514	30,533	(1,406,888)
Instruction library, media and technology	148,174	-	-	(148,174)
School site administration	1,411,863	-	-	(1,411,863)
Pupil services:				
Home-to-school transportation	193,403	10,645	-	(182,758)
Food services	854	-	-	(854)
All other pupil services	872,487	1,000	7,739	(863,748)
General administration:				
Data processing	373,745	-	-	(373,745)
All other general administration	1,392,084	-	-	(1,392,084)
Plant services	2,348,769	54	100,036	(2,248,679)
Community services	212,720	-	-	(212,720)
Other outgo	103,145	31,921	5,382	(65,842)
Interest on long-term debt	4,030,168	-	-	(4,030,168)
Total governmental activities	<u>\$ 32,498,160</u>	<u>\$ 340,620</u>	<u>\$ 716,070</u>	<u>\$ (31,441,470)</u>
General revenues:				
Taxes and subventions:				
Taxes levied for general purposes				17,391,903
Taxes levied for debt service				2,391,366
Taxes levied for other specific purposes				2,151,685
Federal and state aid not restricted to specific purposes				1,547,943
Interest and investment earnings				198,397
Miscellaneous				4,155,111
Total general revenues				<u>27,836,405</u>
Change in net position				(3,605,065)
Net position beginning				<u>(28,999,694)</u>
Net position ending				<u>\$ (32,604,759)</u>

The notes to basic financial statements are an integral part of this statement

Hillsborough City School District

Governmental Funds

Balance Sheet

June 30, 2016

	General Fund	Special Reserve for Capital Outlay Fund	Bond Interest & Redemption Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and investments	\$ 5,467,485	\$ 163,502	\$ 2,102,442	\$ 106,616	\$ 7,840,045
Accounts receivable	911,460	533	4,015	460	916,468
Prepaid expenses	14,193	-	-	-	14,193
Total Assets	\$ 6,393,138	\$ 164,035	\$ 2,106,457	\$ 107,076	\$ 8,770,706
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 363,953	\$ -	\$ -	\$ 860	\$ 364,813
Unearned revenue	-	58,333	-	-	58,333
Total Liabilities	363,953	58,333	-	860	423,146
Fund balances:					
Nonspendable:					
Revolving fund	5,000	-	-	-	5,000
Prepaid expenditures	14,193	-	-	-	14,193
Restricted:					
Educational programs	379,778	-	-	-	379,778
Cafeteria programs	-	-	-	10,665	10,665
Debt service	-	-	2,106,457	-	2,106,457
Capital projects	-	-	-	81,374	81,374
Committed:					
Deferred maintenance	-	-	-	14,177	14,177
Educational programs	539,975	-	-	-	539,975
Other postemployment benefits	1,061,684	-	-	-	1,061,684
Unassigned:					
Unappropriated	4,028,555	105,702	-	-	4,134,257
Total Fund Balances	6,029,185	105,702	2,106,457	106,216	8,347,560
Total Liabilities and Fund Balances	\$ 6,393,138	\$ 164,035	\$ 2,106,457	\$ 107,076	\$ 8,770,706

The notes to basic financial statements are an integral part of this statement

Hillsborough City School District
 Reconciliation of the Governmental Funds
 Balance Sheet to the Statement of Net Position
 June 30, 2016

Total fund balances - governmental funds		\$ 8,347,560
Capital assets for governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$81,399,979 and the accumulated depreciation is \$26,678,639.		54,721,340
In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The accrued interest at the end of the period was:		(331,000)
Contributions made to pension plans will not be included in the calculation of the District's net pension liability of the plan year included in this report and have been deferred and reported as deferred outflows of resources.		2,656,723
The difference between projected and actual earnings from pension plan assets is not included in the plan's actuarial study until the next fiscal year and are reported as deferred inflows of resources in the statement of net position.		(2,807,565)
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
General obligation bonds	\$ 71,812,081	
Net pension obligations	21,519,798	
Net OPEB obligations	1,767,620	
Compensated absences	92,318	(95,191,817)
Total net position - governmental activities		\$ (32,604,759)

The notes to basic financial statements are an integral part of this statement

Hillsborough City School District
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Fiscal Year Ended June 30, 2016

	General Fund	Retiree Benefit Special Reserve Fund	Special Reserve for Capital Outlay Fund	Bond Interest & Redemption Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:						
LCFF/Proport Taxes	\$ 17,864,915	\$ -	\$ -	\$ -	\$ -	\$ 17,864,915
Federal	295,797	-	-	-	-	295,797
Other state	1,484,652	-	-	5,044	-	1,489,696
Other local	6,717,401	-	101,801	2,396,355	55,839	9,271,396
Total revenues	26,362,765	-	101,801	2,401,399	55,839	28,921,804
Expenditures:						
Instruction	18,038,242	-	-	-	-	18,038,242
Instruction-related services:						
Supervision of instruction	1,355,805	-	-	-	-	1,355,805
Instruction library, media and technology	136,216	-	-	-	-	136,216
School site administration	1,289,920	-	-	-	-	1,289,920
Pupil services:						
Home-to-school transportation	180,550	-	-	-	-	180,550
Food services	-	-	-	-	860	860
All other pupil services	803,148	-	-	-	-	803,148
General administration:						
Data processing	342,812	-	-	-	-	342,812
All other general administration	1,277,122	-	-	-	-	1,277,122
Plant services	2,107,567	-	5,052	-	80,375	2,192,994
Facility acquisition and construction	-	-	107,688	-	13	107,701
Community services	191,956	-	-	-	-	191,956
Transfers between agencies	103,145	-	-	-	-	103,145
Debt service:						
Principal	50,534	-	-	1,201,708	-	1,252,242
Interest and fees	117,804	-	-	1,014,286	-	1,132,090
Total expenditures	25,994,821	-	112,740	2,215,994	81,248	28,404,803
Excess (deficiency) of revenues over (under) expenditures	367,944	-	(10,939)	185,405	(25,409)	517,001
Other financing sources (uses):						
Transfers in	130,000	-	-	28,822	-	158,822
Transfers out	(50,000)	-	(80,000)	(28,822)	-	(158,822)
Total other financing sources (uses)	80,000	-	(80,000)	-	-	-
Changes in fund balances	447,944	-	(90,939)	185,405	(25,409)	517,001
Prior period adjustments	1,003,599	(1,003,599)	-	-	-	-
Fund balances beginning	4,577,642	1,003,599	196,641	1,921,052	131,625	7,830,559
Fund balances ending	\$ 6,029,185	\$ -	\$ 105,702	\$ 2,106,457	\$ 106,216	\$ 8,347,560

The notes to basic financial statements are an integral part of this statement

Hillsborough City School District
 Reconciliation of the Governmental Funds
 Statement of Revenues, Expenditures and Changes in Fund Balance
 to the Statement of Activities
 For the Fiscal Year Ended June 30, 2016

Total net change in fund balances - governmental funds \$ 517,001

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital assets additions of \$149,028 was less than depreciation expense of \$2,532,971 in the period. (2,383,943)

Governmental funds do not recognize expenses and losses related to impairments and write-offs. However, in the government-wide statement of activities and changes in net position, these items are recognized when incurred. (102,101)

The governmental funds report long-term debt proceeds as an other financing source, while repayment of debt principal is reported as an expenditure. Also, governmental funds report the effect of prepaid issuance costs and premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. The net effect of these differences in the treatment of long-term debt and related items is as follows:

General obligation bond principal	\$ 1,201,708	
Accreted Interest	(2,915,335)	
Amortization of bond premiums	73,392	(1,640,235)

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due 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 due. 17,257

In the statement of activities, compensated absences are measured by the amount earned during the year. In governmental funds, however, expenditures for those items are measured by the amount of financial resources used (essentially the amounts paid). This year vacation earned was less than vacation used. 65,582

In governmental funds, actual contributions to pension plans are reported as expenditures in the year incurred. However, in the government-wide statement of activities, only the current year pension expense as noted in the plans' valuation reports is reported as an expense, as adjusted for deferred inflows and outflows of resources. 282,544

In the statement of activities, the net postemployment benefit obligation is the amount by which the contributions toward the OPEB plan were less than the annual required contribution as actuarially determined. The net OPEB obligation was not recorded in the governmental fund statements. The change in the net OPEB obligation was recorded in the statement of activities in the amount of: (361,170)

Change in net position of governmental activities \$ (3,605,065)

The notes to basic financial statements are an integral part of this statement

Hillsborough City School District
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2016

	Student Body Agency Fund
Assets	
Cash on hand and in banks	<u>\$ 110,443</u>
Total Assets	<u><u>\$ 110,443</u></u>
Liabilities	
Due to student groups	<u>\$ 110,443</u>
Total Liabilities	<u><u>\$ 110,443</u></u>

The notes to basic financial statements are an integral part of this statement

Notes to the Basic Financial Statements

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

1. SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Principles

Hillsborough City School District (the "District") accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's *California School Accounting Manual*. The account policies of the District conform to accounting principles generally accepted in the United States of America as prescribed by the U. S. Governmental Accounting Standards Board ("GASB") and the American Institute of Certified Public Accountants ("AICPA").

B. Reporting Entity

The Hillsborough City School District was organized on August 14, 1911 under the laws of the State of California. The District is the level of government primarily accountable for activities related to public education. The governing authority consists of five elected officials who, together, constitute the Board of Trustees. The District's combined financial statements include the accounts of all its operations.

The financial reporting entity only consists of the primary government, the District. The District has evaluated whether any other entity should be included in these financial statements using the criteria established by GASB which requires local governments to report: (a) organizations for which the primary government is financially accountable, and (b) other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the component unit's board, **and** either (a) the City has the ability to impose its will on the organization, or (b) there is a potential for the organization to provide a financial benefit to or impose a financial burden on the City.

For the fiscal year ended June 30, 2015, the District had included the Hillsborough Schools Foundation and the Hillsborough Recreation in its government-wide financial statements. However, these entities no longer meet the definition of a component unit as defined above, and, therefore, has not been included in the District's June 30, 2016 government-wide financial statements.

C. Basis of Presentation

Government-wide Financial Statements:

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the District. Eliminations have been made to minimize the effect of interfund of activities. The Statement of

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

Net Position reports all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund and fiduciary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

The government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. 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. Program revenues include charges paid by the recipients of goods or services offered by a program, as well as 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 of the District, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

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 governmental fund is presented in a separate column, and all non-major funds are aggregated into one column.

The accounting and financial treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Fiduciary funds are reported using the economic resources measurement focus.

D. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds use the accrual basis of accounting.

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

Revenues - Exchange and Non-exchange Transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under 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 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. For the District, "available" means collectible within the current period or within 60 days after year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred Outflows/Deferred Inflows:

Deferred outflow of resources is a consumption of net assets by the government that is applicable to a future reporting period; for example, prepaid items and deferred charges.

Deferred inflow of resources is an acquisition of net assets by the government that is applicable to a future reporting period; for example, unearned revenue and advance collections.

Unearned Revenue:

Unearned revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred inflows from unearned revenue. In the governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have been recorded as deferred inflows from unearned revenue.

Expenses/Expenditures:

Using the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

and amortization, are not recognized in the governmental funds. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

E. Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows, liabilities, deferred inflows, fund equity or retained earnings, revenues, and expenditures or expenses, as appropriate. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The District's accounts are organized into major and fiduciary funds as follows:

Major Governmental Funds:

The *General Fund* is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund. Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, and Fund 20, Special Reserve for Retiree Benefits Fund, are currently defined as a special revenue funds in the California State Accounting Manual (CSAM), but do not meet the GASB Statement No. 54 special revenue fund definition. While these funds are authorized by statute and will remain open for internal reporting purposes, they function as an extension of the General Fund, and accordingly have been combined with the General Fund for presentation in these audited financial statements.

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

The *Bond Interest and Redemption Fund* is used to account for taxes received and expended on interest and the redemption of principal of general obligation bonds.

Fiduciary Funds:

Agency Funds are used to account for assets of others for which the District acts as an agent. The District maintains an agency fund for the student body accounts. The student body funds are used to account for the raising and expending of money to promote the general welfare, morale, and educational experience of the student body.

F. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. By state law, the District's governing board must adopt a final budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements.

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

These budgets are revised by the District's governing board during the year to give consideration to unanticipated income and expenditures. The original and final revised budgets for the General Fund and major special revenue funds are presented as Required Supplementary Information.

Formal budgetary integration was employed as a management control device during the year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts.

G. Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated on June 30.

H. 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 District's California Public Employees' Retirement System (CalPERS) and California State Teachers' Retirement System plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS and STRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined time frames. For this period, the following time frames were used:

Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Measurement Period	July 1, 2014 to June 30, 2015

I. Assets, Liabilities, and Equity

a) Cash and Investments

Cash balances held in banks and in revolving funds are insured to \$250,000 by the Federal Deposit Insurance Corporation. In accordance with *Education Code* Section 41001, the District maintains substantially all of its cash in the County Treasury. The county pools these funds with those of other districts in the county and invests the cash. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

All District-directed investments are governed by Government Code Section 53601 and Treasury investment guidelines. The guidelines limit specific investments to government securities, domestic chartered financial securities, domestic corporate issues, and California municipal securities. The District's securities portfolio is held by the County Treasurer. Interest earned on investments is recorded as revenue of the fund from which the investment was made.

The county is authorized to deposit cash and invest excess funds by California Government Code Section '53648 et seq. The funds maintained by the county are either secured by federal depository insurance or are collateralized.

b) Fair Value Measurements

Investments are recorded at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income. This statement changed the definition of fair value and is effective for periods beginning after June 15, 2015.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction.

In determining this amount, three valuation techniques are available:

- Market approach - This approach uses prices generated for identical or similar assets or liabilities. The most common example is an investment in a public security traded in an active exchange such as the NYSE.
- Cost approach - This technique determines the amount required to replace the current asset. This approach may be ideal for valuing donations of capital assets or historical treasures.
- Income approach - This approach converts future amounts (such as cash flows) into a current discounted amount.

Each of these valuation techniques requires inputs to calculate a fair value. Observable inputs have been maximized in fair value measures, and unobservable inputs have been minimized.

c) Prepaid Expenditures

Prepaid expenditures

The District has the option of reporting expenditures in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditure in the benefiting period.

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

d) Capital Assets

Capital assets are those purchased or acquired with an original cost of \$15,000 or more and are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

Depreciation on all capital assets is computed using a straight-line basis over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Improvement of sites	5-50
Buildings	20-50
Building improvements	5-50
Furniture and fixtures	2-15
Equipment	2-15
Computer equipment	2-15
Office equipment	2-15

e) Unearned Revenue

Cash received for federal and state special projects and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Unearned revenue is recorded as a deferred inflow to the extent that cash received on specific projects and programs exceeds qualified expenditures.

f) 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

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

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.

g) Long-Term Liabilities

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of applicable bond premium or discount. Issuance costs are expensed in the period incurred.

In the fund financial statements, governmental funds recognize bond premiums and discounts as well as bond issuance costs, during the current period. The face amount of the debt issued, premiums, or discounts are reported as other financing sources/uses.

h) Fund Balance Policy and Classifications

The District is committed to maintaining a prudent level of financial resources to protect against the need to reduce service levels because of temporary revenue shortfalls or unpredicted expenditures. The District's minimum fund balance policy requires a reserve for economic uncertainties, consisting of unassigned amounts, of 6 percent of general fund operating expenditures and other financing uses.

In accordance with Government Accounting Standards Board 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the District classifies governmental fund balances as follows:

- Non-spendable includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end. Committed fund balances are imposed by the District's board of education.

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

- Assigned includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted nor committed. Fund balance may be assigned by the Governing Board or its designee.
- Unassigned includes positive fund balances within the general fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The District uses restricted/committed amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the District would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

i) Net Position

Net position represents the difference between assets, deferred outflows, liabilities and deferred inflows. Net investment 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. In addition, deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also are included in the net investment in capital assets component of net position. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, laws or regulations of other governments. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Capital Projects restrictions will be used for the acquisition and construction of capital facilities.

Debt Service restrictions reflect the cash balances in the debt service funds that are restricted for debt service payments by debt covenants.

Educational Programs restrictions reflect the amounts to be expended on specific school programs funded by federal and state resources and from locally funded programs with stipulated uses.

Cafeteria Program restrictions reflect the cash balances in the Cafeteria fund that are restricted for food services and child nutrition programs.

Unrestricted net position reflect amounts that are not subject to any donor-imposed restrictions. This class also includes restricted gifts whose donor-imposed restrictions were met during the fiscal year. A deficit unrestricted net position may result when significant

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

cash balances restricted for capital projects exist. Once the projects are completed, the restriction on these assets are released and converted to capital assets.

i) Local Control Funding Formula and Property Taxes

The Local Control Funding Formula (LCFF) creates base, supplemental, and concentration grants in place of most previously existing K–12 funding streams, including revenue limits and most state categorical programs. The revenue limit was a combination of local property taxes, state apportionments, and other local sources.

Until full implementation, local educational agencies (LEAs) will receive roughly the same amount of funding they received in 2012–13 plus an additional amount each year to bridge the gap between current funding levels and LCFF target levels. The budget projects the time frame for full implementation of the LCFF to be eight years.

The county is responsible for assessing, collecting, and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the county. The levy is based on the assessed values as of the preceding March 1, which is also the lien date. Property taxes on the secured roll are due on August 31 and February 1, and taxes become delinquent after December 10 and April 10, respectively. Property taxes on the unsecured roll are due on the lien date (March 1), and become delinquent if unpaid by August 31.

Secured property taxes are recorded as revenue when apportioned, in the fiscal year of the levy. The county apportions secured property tax revenue in accordance with the alternate method of distribution prescribed by Section 4705 of the California *Revenue and Taxation Code*. This alternate method provides for crediting each applicable fund with its total secured taxes upon completion of the secured tax roll - approximately October 1 of each year.

The County Auditor reports the amount of the District's allocated property tax revenue to the California Department of Education. Property taxes are recorded as local revenue limit sources by the District.

j) Risk Management

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. The District has joined together with other school districts in the County to form the San Mateo County Schools Insurance Group ("SMCSIG") public entity risk pool. The District pays an annual premium for its property and casualty, workers' compensation, and liability insurance coverage. The Joint Powers Agreements provide that SMCSIG will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of self-insured levels.

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

There were no significant reductions in insurance coverage from coverage in the prior year and no insurance settlement exceeding insurance coverage.

k) Accounting Estimates

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

l) Subsequent Events

Management has reviewed subsequent events and transactions that occurred after the date of the financial statements through the date the financial statements were issued. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles. Management has determined that there are no non-recognized subsequent events that require additional disclosure, other than the following:

The District issued \$2,470,000 of Tax and Revenue Anticipation Notes dated July 14, 2016. The notes mature on June 30, 2017 and have a two percent interest rate. 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, 2017 and remaining principal and interest be deposited by April 01, 2017.

J. Implemented New Accounting Pronouncements

GASB Statement No. 72, *Fair Value Measurement and Application*

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. The provisions of GASB Statement No. 72 (GASB 72) are effective for reporting periods beginning after June 15, 2015. Earlier application is encouraged.

GASB 72 provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The statement generally requires state and local governments to measure investments at fair value. The statement defines an *investment* as a security or other asset that (a) a government holds primarily for the purpose of income or profit and (b) has a present service capacity based solely on its ability to generate cash or to be sold to generate cash. *Fair value* is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between participants at the measurement date.

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

The statement requires that acquisition value (an entry price) be used to measure the following assets:

- a. donated capital assets;
- b. donated works of art, historical treasures, and other similar assets; and
- c. capital assets received in a service concession arrangement. These assets were previously required to be measured at fair value.

GASB 72 requires that sound and consistent valuation techniques be used to determine fair value. The valuation techniques should maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The valuation technique used should be consistent with one or more of three approaches that are appropriate in the circumstances: the market approach, cost approach, and income approach. Valuation techniques should be applied consistently from period to period. A change in valuation technique or its application is appropriate if it achieves a measurement that is equally or more representative of an asset's fair value under the circumstances.

Inputs to valuation techniques used to measure fair value are categorized into three levels as noted in the investments disclosure section.

The implementation of GASB 72 did not have a significant impact on the District's financial statements and did not result in any prior period restatements or adjustments.

GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments

The purpose of GASB Statement No. 76 (GASB 76) is to identify 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. GASB Statement No. 76 supersedes GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.

GASB 76 reduces the authoritative sources of GAAP from four categories to two. According to the statement, "The sources of authoritative GAAP are categorized in descending order of authority as follows:

- a. Officially established accounting principles—Governmental Accounting Standards Board (GASB) Statements (Category A).
- b. GASB Technical Bulletins; GASB Implementation Guides; and literature of the AICPA cleared by the GASB (Category B)."

Sources of nonauthoritative accounting literature are identified in paragraph 7 of GASB 76, and includes GASB Concepts Statements.

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

The implementation of GASB 76 did not have a significant impact on the District's financial statements and did not result in any prior period restatements or adjustments.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*

GASB 79 addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in GASB 79. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.

If an external investment pool does not meet the criteria established by this Statement, that pool should apply the provisions in paragraph 16 of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended. If an external investment pool meets the criteria in GASB 79 and measures all of its investments at amortized cost, the pool's participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria in GASB 79, the pool's participants should measure their investments in that pool at fair value, as provided in paragraph 11 of Statement 31, as amended.

GASB 79 establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals.

The requirements of GASB 79 are effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

The implementation of GASB 79 did not have a significant impact on the District's financial statements and did not result in any prior period restatements or adjustments.

K. Upcoming Accounting and Reporting Changes

GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.

The provisions in Statement 74 are effective for fiscal years beginning after June 15, 2016. 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 replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*.

The scope of this Statement includes OPEB plans—defined benefit and defined contribution—administered through trusts that meet the following criteria:

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

Management anticipates that this statement will not have a direct impact on the District's financial statements.

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.

The provisions in Statement 75 are effective for fiscal years beginning after June 15, 2017. 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 replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a nonemployer District provides financial support for OPEB of employees of another District.

In this Statement, distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, the OPEB plan administrator, and the plan members.

The District is in the process of determining the impact this statement will have on the financial statements.

GASB Statement No. 77, *Tax Abatement Disclosures*

GASB Statement No. 77, *Tax Abatement Disclosures*, addresses financial reporting about the nature and magnitude of tax abatements of governmental entities. The statement requires that governments that enter into tax abatements disclose more comprehensive information about the agreements, including the following:

- a. Brief descriptive information including what tax is being abated, the authority under which the abatement is provided, and the eligibility criteria
- b. The gross dollar amount of taxes abated during the period
- c. Other commitments made by a government as part of the agreement

The complete disclosure requirements are provided in paragraphs 7 and 8 of GASB 77. GASB 77 is effective for periods beginning after December 15, 2015. The District does not anticipate a material impact on its financial statements from the implementation of this standard.

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

GASB Statement No. 78, Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans

The objective of this Statement is to address a practice issue regarding the scope and applicability of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. Prior to the issuance of this GASB 78, the requirements of GASB 68 applied to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts that meet the criteria in paragraph 4 of that statement.

GASB 78 amends the scope and applicability of GASB 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

The District does not anticipate a material impact on its financial statements from the implementation of this standard.

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

2. CASH AND INVESTMENTS

A summary of cash and investments as of June 30, 2016 is as follows:

Description	Carrying Amount	Fair Value	Investment Rating
Government-Wide Statements:			
Cash with fiscal agent	\$ 4,728	\$ 4,728	Not Rated
Cash in revolving funds	5,000	5,000	Not Rated
Local Agency Investment Fund	1,770	1,770	N/A
Cash with County	7,828,547	7,852,502	N/A
Total Cash and Investments	<u>\$ 7,840,045</u>	<u>\$ 7,864,000</u>	
Fiduciary Funds:			
Cash in Banks	<u>\$ 110,443</u>	<u>\$ 110,443</u>	

Cash in Banks and in Revolving Funds

Cash balances in banks and revolving funds are insured up to \$250,000 per bank by the Federal Deposit Insurance Corporation ("FDIC"). These accounts are held within various financial institutions. As of June 30, 2016, the bank balances of the District's accounts were fully insured by FDIC.

Cash in County Treasury

The District is considered to be an involuntary participant in an external investment pool as the District is required to maintain substantially all of its cash with the County Treasurer in accordance with 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 fair 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.

Fair Value Measurements

GASB 72 established a hierarchy of inputs to the valuation techniques above. This hierarchy has three levels:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2 inputs are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable.
- Level 3 inputs are unobservable inputs, such as a property valuation or an appraisal.

As of June 30, 2016, the cash in the County investment pool of \$7,852,502 was valued using Level 2 inputs.

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

Policies and Practices

The District is authorized under California Government Code Section 53635 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.

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 the changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury. The District maintains cash with the County of San Mateo Investment Pool. The pool has a fair value of approximately \$1.368 billion and an amortized book value of \$1.372 billion.

Credit Risk

Credit risk is the risk of loss due to the failure of the security issuer. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investment with the County of San Mateo Investment Pool is governed by the County's general investment policy. The investment with the County of San Mateo Investment Pool is rated at least AA by Moody's Investor Service.

Custodial Credit Risk - Deposits

Custodial credit risk 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 agencies. 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.

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government code. District investments that are greater than 5 percent of total investments are in either an external investment pool or mutual funds and are, therefore, exempt.

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

3. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following as of June 30, 2016:

Description	General Fund	Special Reserve for Capital Outlay Fund	Bond Interest Redemption	Nonmajor Funds	Total
Federal Government	\$ 272,732	\$ -	\$ -	\$ -	\$ 272,732
State Government	569,898	-	-	-	569,898
Other Resources	68,830	533	4,015	460	73,838
Total Accounts Receivable	\$ 911,460	\$ 533	\$ 4,015	\$ 460	\$ 916,468

4. INTERFUND TRANSACTIONS

Interfund transactions are reported as either loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables (Due From/To), as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers among governmental funds are netted as part of the reconciliation to the government-wide financial statements.

Interfund Receivables/Payables (Due From/Due To)

As of June 30, 2016, the District did not have any interfund payables and receivables to report.

Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving revenues to funds through which the resources are to be expended. During the fiscal year ended June 30, 2016 the District had the following transfers:

Description	Transfers In	Transfers Out
General Fund	\$ 130,000	\$ 50,000
Bond Interest & Redemption Fund	28,822	28,822
Special Reserve for Capital Outlay Fund	-	80,000
Totals	\$ 158,822	\$ 158,822

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

5. CAPITAL ASSETS AND DEPRECIATION

Capital asset activities for the year ended June 30, 2016 were as follows:

Capital Assets	Balance July 01, 2015	Additions	Adjustments/ Deletions	Balance June 30, 2016
Land - not depreciable	\$ 228,711	\$ -	\$ -	\$ 228,711
Construction in Progress - not depreciable	-	127,288	(127,288)	-
Land Improvements	1,805,077	-	-	1,805,077
Buildings and Improvements	76,937,039	107,688	1	77,044,728
Furniture and Equipment	2,559,066	41,340	(278,943)	2,321,463
Total capital assets	81,529,893	276,316	(406,230)	81,399,979
Less accumulated depreciation for:				
Land Improvements	1,154,997	75,968	-	1,230,965
Buildings and Improvements	21,472,128	2,330,277	(25,040)	23,777,365
Furniture and Equipment	1,553,469	126,726	(9,886)	1,670,309
Total accumulated depreciation	24,180,594	2,532,971	(34,926)	26,678,639
Total capital assets - net depreciation	\$ 57,349,299	\$ (2,256,655)	\$ (371,304)	\$ 54,721,340

Depreciation expense was charged to the following governmental activities:

Instruction	\$ 1,764,398
Supervision of instruction	120,084
Instruction library, media and technology	13,460
School site administration	136,170
Home-to-school transportation	14,844
Food services	3
All other pupil services	78,197
Community services	20,764
All other general administration	129,048
Data process services	34,714
Plant services	221,289
Total depreciation expense	\$ 2,532,971

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

6. LONG-TERM LIABILITIES

Schedule of Changes in Long-term Liabilities

The following summarizes the District's changes in long-term debt for the fiscal year ended June 30, 2016:

Description	Balance	Additions	Adjustments	Balance	Due Within
	July 01, 2015		& Deletions	June 30, 2016	One Year
General Obligation Bonds	\$ 70,171,846	\$ 2,923,627	\$ 1,283,392	\$ 71,812,081	\$ 1,383,026
Capital Lease Obligations	228,578	-	228,578	-	-
Net Pension Obligations	18,620,194	2,899,604	-	21,519,798	-
Net OPEB Obligation	1,406,450	520,729	159,559	1,767,620	-
Compensated Absences	157,900	-	65,582	92,318	-
Total Long-term Liabilities	\$ 90,584,968	\$ 6,343,960	\$ 1,737,111	\$ 95,191,817	\$ 1,383,026

Payments on bonds were made from the Bond Interest and Redemption Fund and Debt Service Fund using local revenues. Compensated absences and net OPEB obligations were paid by the fund for which the employee worked. Capital leases were paid from the General Fund.

General Obligation Bonds Payable

The following summarizes the bonds outstanding as of June 30, 2016:

Bond	Maturity Date	Interest Rate %	Original Issue	Bonds	Adjustments	Adjustments & Redeemed	Bonds
				Outstanding July 01, 2015	Accretion/ Issued		Outstanding June 30, 2016
2002 GOB Series B	2022	4.25-5	\$ 16,490,000	\$ 12,060,000	\$ -	\$ 915,000	\$ 11,145,000
2002 GOB Series B	2031	4.74-4.88	12,011,422	12,011,422	-	-	12,011,422
2002 GOB, Series C	2044	2-6.25	3,020,000	3,000,000	-	-	3,000,000
2002 GOB, Series C	2045	2.35-7.3	19,660,012	19,660,012	-	11,708	19,648,304
2012 Refunding Bonds	2027	.2-2.57	8,850,000	8,270,000	-	275,000	7,995,000
Subtotal General Obligation Bonds			60,031,434	55,001,434	-	1,201,708	53,799,726
Accreted Interest			-	14,069,525	2,923,627	8,292	16,984,860
Bond Premiums			-	1,100,887	-	73,392	1,027,495
Total General Obligation Bonds			\$ 60,031,434	\$ 70,171,846	\$ 2,923,627	\$ 1,283,392	\$ 71,812,081

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

The annual debt service requirements of the bonds are as follows:

For the Fiscal Year Ending June 30,	Principal	Interest	Total
2017	\$ 1,383,026	\$ 991,050	\$ 2,374,076
2018	1,593,548	937,577	2,531,125
2019	1,805,635	885,391	2,691,026
2020	2,048,874	815,376	2,864,250
2021	2,314,420	739,430	3,053,850
2022-2026	11,536,000	6,966,000	18,502,000
2027-2031	9,455,595	16,652,005	26,107,600
2032-2036	7,742,528	28,634,973	36,377,501
2037-2041	7,083,049	42,759,451	49,842,500
2042-2046	8,837,051	52,514,198	61,351,249
Total Debt Service	\$ 53,799,726	\$ 151,895,451	\$ 205,695,177

7. CALPERS PENSION PLAN

General Information about the PERS Pension Plan

Plan Description - All qualified permanent and probationary employees are eligible to participate in the District's Miscellaneous Employee Pension Plan (the Plan), a cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

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 credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for the Plan are applied as specified by the Public Employees' Retirement Law.

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

The Plans' provisions and benefits in effect at June 30, 2016, are summarized as follows:

	Tier 1	Tier 2
Hire Date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2% @ 55	2% @ 62
Benefit vesting schedule	5 Years	5 Years
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	50	62
Monthly benefits as a % of eligible compensation	2.0%	2.0%
Required employee contribution rates	7%	6.00%
Required employer contribution rates	11.85%	11.85%

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. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by CalPERS. 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.

For the year ended June 30, 2016, the contributions recognized as part of pension expense for the Plan were as follows:

	Total
Contributions - employer	\$ 381,630
Contributions - employee	200,853
Total contributions	<u>\$ 582,483</u>

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to PERS

As of June 30, 2016, the District reported net pension liabilities for its proportionate shares of the net pension liability of the Plan as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous Plan	\$ 3,781,430

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2015, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. 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 employers, actuarially determined. The District's proportionate share of the net pension liability for the Plan as of June 30, 2014 and 2015 was as follows:

	Proportion of Net Pension Liability
Proportion - June 30, 2014	0.0257%
Proportion - June 30, 2015	0.0257%
Change in Net Pension Liability	0.0000%

For the year ended June 30, 2016, the District recognized pension expense of \$340,017 for the Plan. At June 30, 2016, 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	\$ 350,437	\$ -
Changes in assumptions	-	(230,947)
Differences between expected and actual experiences	214,817	-
Net differences between projected and actual earnings on plan investments	617,331	(746,033)
Total	\$ 1,182,585	\$ (976,980)

The District reported \$350,437 as deferred outflows of resources related to contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Measurement Periods Ended June 30:	Deferred Outflows/(inflows) of Resources
2016	\$ (99,907)
2017	(99,907)
2018	(99,351)
2019	154,333
Total	\$ (144,832)

Actuarial Assumptions - The total pension liabilities in the June 30, 2014 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	3.3% - 14.2% (1)
Investment Rate of Return	7.5% (2)
Mortality	(3)

- (1) Depending on age, service and type of employment
- (2) Net of pension plan investment expenses, including inflation
- (3) Derived using CalPERS' membership data for all funds

Discount Rate - The discount rate used to measure the total pension liability was 7.50 percent for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology. 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.

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 10 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 table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 (a)	Real Return Years 11+ (b)
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	9.00%	4.50%	5.13%
Infrastructure and Forestland	3.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%
Total Allocation	100.00%		

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the District's proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

1% Decrease	6.65%
Net Pension Liability	\$ 6,154,592
Current Discount Rate	7.65%
Net Pension Liability	\$ 3,781,430
1% Increase	8.65%
Net Pension Liability	\$ 1,807,987

Pension Plan Fiduciary Net Position - Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

8. CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM (STRS) PENSION PLAN

General Information about the STRS Pension Plan

Plan Description - The District contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability, and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information.

Benefits Provided - STRS 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 credited service, equal to one year of full time employment. The cost of living adjustments for the Plan are applied as specified by the retirement Law.

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

The Plan's provisions and benefits in effect at June 30, 2016, are summarized as follows:

	Tier 1	Tier 2
Hire Date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2% @ 60	2% @ 62
Benefit vesting schedule	5 Years	5 Years
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	50	55
Monthly benefits as a % of eligible compensation	2%	2%
Required employee contribution rates	9.20%	8.56%
Required employer contribution rates	10.73%	10.73%

Contributions - As part of the annual valuation process, the Normal Cost rate is determined as the basis for setting the base member contribution rate for the following fiscal year. Generally, the base member contribution rate is one-half of the Normal Cost rate within certain parameters. Required member, employer and state contribution rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. Contribution rates are expressed as a level percentage of payroll using the entry age normal actuarial cost method.

For the year ended June 30, 2016, the contributions recognized as part of pension expense for the Plan were as follows:

	Total
Contributions - employer	\$ 1,154,619
Contributions - employee	702,800
Total contributions	<u>\$ 1,857,419</u>

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to STRS

As of June 30, 2016, the District reported net pension liabilities for its proportionate shares of the net pension liability of the Plan as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous Plan	<u>\$ 17,786,323</u>

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2015, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

procedures. 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 employers, actuarially determined.

The District's proportionate share of the net pension liability for the Plan as of June 30, 2014 and 2015 was as follows:

	Proportion of Net Pension Liability
Proportion - June 30, 2014	0.0269%
Proportion - June 30, 2015	0.0264%
Change in Net Pension Liability	-0.0005%

For the year ended June 30, 2016, the District recognized pension expense of \$1,202,014 for the Plan. At June 30, 2016, 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	\$ 1,474,138	\$ -
Changes in assumptions	-	-
Differences between expected and actual experiences	-	(293,888)
Net differences between projected and actual earnings on plan investments	-	(1,536,696)
Total	\$ 1,474,138	\$ (1,830,584)

The District reported \$1,474,138 as deferred outflows of resources related to contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Measurement Periods Ended June 30:	Deferred Outflows/(inflows) of Resources
2016	\$ (709,464)
2017	(709,464)
2018	(709,464)
2019	297,808
Total Outflows/(Inflows) - Net	\$ (1,830,584)

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

Actuarial Assumptions - The total pension liabilities in the June 30, 2015 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.60%
Inflation	3.00%
Payroll Growth	3.75%
Projected Salary Increase	0.5% - 5.6% (1)
Investment Rate of Return	7.60% (2)
Mortality	(3)

- (1) Depending on age, service and type of employment
- (2) Net of pension plan investment expenses, including inflation
- (3) Derived using STRS' membership data for all funds

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 that contributions from plan members and employers will be made at statutory contribution rates in accordance with the rate increases per AB 1469. 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 occur midyear. Based on those assumptions, the plan'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 the total pension liability.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 (a)
Global Equity	51.00%	4.50%
Fixed Income	20.00%	0.20%
Inflation Sensitive	5.00%	3.20%
Private Equity	10.00%	6.20%
Real Estate	13.00%	4.35%
Liquidity	1.00%	0.00%
Total Allocation	100.00%	

(a) 10-year geometric average.

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the District's proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

1% Decrease		6.60%	
Net Pension Liability	\$		28,463,120
Current Discount Rate		7.60%	
Net Pension Liability			18,191,102
1% Increase		8.60%	
Net Pension Liability	\$		10,862,040

Pension Plan Fiduciary Net Position - Detailed information about each pension plan's fiduciary net position is available in the separately issued STRS financial reports.

9. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

Plan Description. The District's 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.

Funding Policy. 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 to the PHP is based on projected pay-as-you-go financing requirements. For the fiscal year ended June 30, 2016, the District contributed \$159,559 to the plan from payment of current premiums and current retiree benefits.

Annual OPEB Cost and Net OPEB Obligation. The District's annual other postemployment benefit (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 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 liabilities (or funding excess) over a period not to exceed thirty years.

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

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:

Annual required contribution	\$	457,439
Interest on net OPEB obligation		63,290
Adjustment to annual required contribution		-
Annual OPEB cost (expense)		520,729
Contributions made		(159,559)
Increase in net OPEB obligation		361,170
Net OPEB obligation - beginning of year		1,406,450
Net OPEB obligation - end of year	\$	1,767,620

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2014	\$ 347,407	40.00%	\$ 1,061,665
6/30/2015	505,210	32.00%	1,406,450
6/30/2016	520,729	30.64%	1,767,620

Funded Status and Progress of the Plan

The following summarizes the funded status of the plan as of June 30, 2016:

Actuarial accrued liability (AAL)	\$	3,569,240
Actuarial value of plan assets		-
Unfunded actuarial accrued liability (UAAL)	\$	3,569,240
Funded ratio (actuarial value of plan assets/AAL)		0%
Projected covered payroll (active Plan members)	\$	16,515,215
UAAL as a percentage of covered payroll		21.61%

Actuarial Methods and Assumptions. In the Entry Age Normal method, the cost of each individual's OPEB benefits is amortized on a straight-line basis over his/her working career. For each employee, a "normal cost" is computed, the amount which, if accumulated during each year of employment, will at retirement be sufficient to fund the expected benefits for that individual. The sum of all the individual normal costs for all employees is called the Normal Cost. The accumulated value of all normal costs attributed to prior years, including the full value of benefits for all currently retired employees, is called the Actuarial Accrued Liability. The unfunded Actuarial Accrued Liability is amortized over a period of future years. The longest amortization period permitted under GASB 45 is 30 years. The ARC is the sum of the Normal Cost and the amortization of the unfunded Actuarial Accrued Liability.

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

The actuarial assumptions included a discount rate of 4.5% per year and an annual healthcare cost trend rate of 4%. The discount rate is the interest rate at which future benefit obligations are discounted back to the present time. GASB 45 requires that the discount rate reflects the expected investment return on the District's investments.

10. COMMITMENTS AND CONTINGENCIES

Litigation

Various claims involving the District arise during the normal course of business. However, management believes, based on consultation with legal counsel, that the ultimate resolution of these matters will not have a material adverse effect on the District's financial position or results of operations.

Federal and State Allowances, Awards and Grants

The District has received federal and state funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursement will not be material.

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 were 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. By April 30, 2016, 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.

11. JOINT POWERS AGREEMENTS

The District participates in a joint venture under a joint powers agreement (JPA) with San Mateo County Schools Insurance Group (SMCSIG) for property and liability and workers' compensation insurance. The relationship between the District and the JPA is such that the JPA is not a component unit of the District for financial reporting purposes.

The JPA arranges for and provides for various types of insurances for its member districts as requested. The JPA is governed by a board consisting of a representative from each member district. The board controls the operations of the JPA, including selection of management and approval of operating budgets, independent of any influence by the member districts beyond their representation on the board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to their participation in the JPA.

Hillsborough City School District
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

The following is a summary of the SMCSIG JPA's most recent financial statement information:

	SMCSIG
	<u>June 30, 2015</u>
Total Assets and Deferred Outflows	\$ 19,703,399
Total Liabilities and Deferred Inflows	9,451,640
Total Equity	10,251,759
Total Revenues	38,557,922
Total Expenditures	36,282,954

REQUIRED
SUPPLEMENTARY
INFORMATION

Hillsborough City School District
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (GAAP)
General Fund
For the Fiscal Year Ended June 30, 2016

	<u>Budgeted Amounts</u>		Actual (GAAP Basis)	Variance with Final Budget Positive - (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues:				
LCFF/Property Taxes	\$ 17,541,985	\$ 17,646,344	\$ 17,864,915	\$ 218,571
Federal	284,524	294,036	295,797	1,761
Other state	1,182,211	2,286,983	1,484,652	(802,331)
Other local	6,456,185	6,576,749	6,717,401	140,652
Total revenues	<u>25,464,905</u>	<u>26,804,112</u>	<u>26,362,765</u>	<u>(441,347)</u>
Expenditures:				
Certificated salaries	13,637,409	14,215,305	14,215,305	-
Classified salaries	2,801,335	3,005,026	3,005,026	-
Employee benefits	4,062,887	4,880,377	3,929,125	951,252
Books and supplies	1,055,123	1,365,999	1,195,858	170,141
Services and other operating expenditures	3,195,314	3,640,647	3,463,593	177,054
Capital outlay	-	19,600	19,600	-
Other outgo	159,783	166,313	166,314	(1)
Total expenditures	<u>24,911,851</u>	<u>27,293,267</u>	<u>25,994,821</u>	<u>1,298,446</u>
Excess (deficiency) of revenues over (under) expenditures	<u>553,054</u>	<u>(489,155)</u>	<u>367,944</u>	<u>857,099</u>
Other financing sources (uses):				
Transfers in	94,500	130,000	130,000	-
Transfers out	(50,000)	(50,000)	(50,000)	-
Total other financing sources (uses)	<u>44,500</u>	<u>80,000</u>	<u>80,000</u>	<u>-</u>
Changes in fund balance	<u>\$ 597,554</u>	<u>\$ (409,155)</u>	447,944	<u>\$ 857,099</u>
Prior period adjustments			1,003,599	
Fund balance beginning			<u>4,577,642</u>	
Fund balance ending			<u>\$ 6,029,185</u>	

Hillsborough City School District
Schedule of Pension Plan Contributions
For the Fiscal Year Ended June 30, 2016

CalPERS	2016	2015
Contractually Required Contributions (Actuarially Determined)	\$ 350,156	\$ 461,889
Contributions in Relation to Actuarially Determined Contributions	350,156	461,889
Contribution Deficiency (Excess)	-	-
Covered Employee Payroll	\$ 2,955,705	\$ 2,809,325
Contributions as a Percentage of Covered Payroll	11.85%	16.44%

Notes to Schedule:

Valuation Date: June 30, 2014
Assumptions Used: Entry Age Method used for Actuarial Cost Method
Level Percentage of Payroll (Closed) Used Amortization Method
3.9 Years Remaining Amortization Period
Inflation Assumed at 2.75%
Investment Rate of Returns set at 7.5%
CalPERS mortality table using 20 years of membership data for all funds

STRS	2016	2015
Contractually Required Contributions (Actuarially Determined)	\$ 1,475,360	\$ 1,154,619
Contributions in Relation to Actuarially Determined Contributions	1,475,360	1,154,619
Contribution Deficiency (Excess)	-	-
Covered Employee Payroll	\$ 13,808,802	\$ 13,003,884
Contributions as a Percentage of Covered Payroll	10.68%	8.88%

Notes to Schedule:

Valuation Date: June 30, 2014
Assumptions Used: Entry Age Method used for Actuarial Cost Method
Level Percentage of Payroll (Closed) Used Amortization Method
30 Years Remaining Amortization Period
Inflation Assumed at 3.0%
Investment Rate of Returns set at 7.6%
STRS mortality table using membership data for all funds

** Fiscal year 2015 was the first year of implementation, therefore only two years are shown.

Hillsborough City School District
Schedule of Proportionate Share of Net Pension Liabilities
For the Fiscal Year Ended June 30, 2016

CalPERS	2016	2015
District's Proportion of Net Pension Liability	0.02565%	0.02570%
District's Proportionate Share of Net Pension Liability	\$ 3,733,599	\$ 2,917,576
District's Covered Employee Payroll	\$ 2,955,705	\$ 2,809,325
 District's Proportionate Share of NPL as a % of Covered Employee Payroll	 126.32%	 103.85%
 Plan's Fiduciary Net Position as a % of the TPL	 79.46%	 83.38%
 STRS	 2016	 2015
District's Proportion of Net Pension Liability	0.02642%	0.02687%
District's Proportionate Share of Net Pension Liability	\$ 17,786,323	\$ 15,702,742
District's Covered Employee Payroll	\$ 13,808,802	\$ 13,003,884
 District's Proportionate Share of NPL as a % of Covered Employee Payroll	 128.80%	 120.75%
 Plan's Fiduciary Net Position as a % of the TPL	 74.59%	 76.61%

** Fiscal year 2015 was the first year of implementation, therefore only two years are shown.

Hillsborough City School District
 OPEB Schedule of Funding Progress
 For the Fiscal Year Ended June 30, 2016

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a/c))
9/1/2010	\$ -	\$2,603,901	\$2,603,901	0.00%	\$14,142,709	18.41%
10/1/2012	-	2,859,548	2,859,548	0.00%	14,126,444	20.24%
10/1/2014	-	3,569,240	3,569,240	0.00%	16,073,202	22.21%

The schedule of funding progress presents multi-year trend information which compares the actuarially accrued liability for benefits with the actuarial value of accumulated plan assets over time.

SUPPLEMENTARY
INFORMATION

*Nonmajor Governmental Funds
Combining Schedules*

Hillsborough City School District
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2016

	<u>Special Revenue Funds</u>		<u>Capital Projects Funds</u>		Totals
	Cafeteria Fund	Deferred Maintenance Fund	Building Fund	Capital Facilities Fund	
Assets					
Cash and investments	\$ 11,361	\$ 14,055	\$ -	\$ 81,200	\$ 106,616
Accounts receivable	164	122	-	174	460
Total Assets	<u>\$ 11,525</u>	<u>\$ 14,177</u>	<u>\$ -</u>	<u>\$ 81,374</u>	<u>\$ 107,076</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 860	\$ -	\$ -	\$ -	\$ 860
Total Liabilities	<u>860</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>860</u>
Fund balances:					
Restricted for:					
Capital projects	-	-	-	81,374	81,374
Cafeteria programs	10,665	-	-	-	10,665
Committed					
Deferred maintenance	-	14,177	-	-	14,177
Total Fund Balances	<u>10,665</u>	<u>14,177</u>	<u>-</u>	<u>81,374</u>	<u>106,216</u>
Total Liabilities and Fund Balances	<u>\$ 11,525</u>	<u>\$ 14,177</u>	<u>\$ -</u>	<u>\$ 81,374</u>	<u>\$ 107,076</u>

Hillsborough City School District
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances
Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2016

	<u>Special Revenue Funds</u>		<u>Capital Projects Funds</u>		Totals
	Cafeteria Fund	Deferred Maintenance Fund	Building Fund	Capital Facilities Fund	
Revenues:					
Other local	\$ 4,074	\$ 570	\$ -	\$ 51,195	\$ 55,839
Total revenues	<u>4,074</u>	<u>570</u>	<u>-</u>	<u>51,195</u>	<u>55,839</u>
Expenditures:					
Pupil services:					
Food services	860	-	-	-	860
Plant services	-	75,719	-	4,656	80,375
Facilities acquisition and construction	-	-	13	-	13
Total expenditures	<u>860</u>	<u>75,719</u>	<u>13</u>	<u>4,656</u>	<u>81,248</u>
Excess (deficiency) of revenues over (under) expenditures	<u>3,214</u>	<u>(75,149)</u>	<u>(13)</u>	<u>46,539</u>	<u>(25,409)</u>
Other financing sources (uses):					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Changes in fund balances	3,214	(75,149)	(13)	46,539	(25,409)
Prior period adjustments	-	-	-	-	-
Fund balances beginning	<u>7,451</u>	<u>89,326</u>	<u>13</u>	<u>34,835</u>	<u>131,625</u>
Fund balances ending	<u>\$ 10,665</u>	<u>\$ 14,177</u>	<u>\$ -</u>	<u>\$ 81,374</u>	<u>\$ 106,216</u>

COMPLIANCE
SECTION

Hillsborough City School District
Organization
June 30, 2016

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>Name</u>	<u>Office</u>	<u>Term Expires</u>
Gilbert Wai	President	2018
Lynne Esselstein	Vice President	2018
Greg Dannis	Clerk	2020
Margi Power	Member	2020
Don Geddis	Member	2018

Administration

Anthony Ranii
Superintendent

Joyce Shen
Business Manager

Hillsborough City School District
Schedule of Average Daily Attendance
For the Fiscal Year Ended June 30, 2016

	Total ADA		Classroom Based	
	Second Period Report	Annual Report	Second Period Report	Annual Report
Regular ADA:				
Grades TK/K through three	607.46	607.73	607.46	607.73
Grades four through six	494.35	494.90	494.35	494.90
Grades seven and eight	348.42	348.55	348.42	348.55
Regular ADA Totals	1,450.23	1,451.18	1,450.23	1,451.18
Extended year Special educationL				
Grades TK/K through three	0.68	0.68	0.68	0.68
Grades four through six	0.88	0.88	0.88	0.88
Grades seven and eight	0.61	0.61	0.61	0.61
Special education - nonpublic, nonsect schools:				
Grades TK/K through three	0.84	0.87	0.84	0.87
Grades four through six	6.48	6.65	6.48	6.65
Grades seven and eight	0.73	0.80	0.73	0.80
Extended year special education - nonpublic, nonsect schools:				
Grades TK/K through three	0.03	0.03	0.03	0.03
Grades four through six	0.37	0.37	0.37	0.37
Grades TK/K through three	0.45	0.45	0.45	0.45
ADA Totals	1,461.30	1,462.52	1,461.30	1,462.52

Hillsborough City School District
 Schedule of Instructional Time
 For the Fiscal Year Ended June 30, 2016

Grade Level	Minutes Requirements	Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Kindergarten	36,000	41,295	180	0	In Compliance
Grade 1	50,400	51,855	180	0	In Compliance
Grade 2	50,400	51,855	180	0	In Compliance
Grade 3	50,400	53,850	180	0	In Compliance
Grade 4	54,000	55,830	180	0	In Compliance
Grade 5	54,000	55,830	180	0	In Compliance
Grade 6	54,000	59,080	180	0	In Compliance
Grade 7	54,000	59,080	180	0	In Compliance
Grade 8	54,000	59,080	180	0	In Compliance

School districts and charter schools must maintain their instructional minutes as defined in Education Code Section 46207. This schedule is required of all districts and charter schools, including basic aid districts.

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

Hillsborough City School District
Schedule of Charter Schools
June 30, 2016

The purpose of this schedule is to list all charter schools chartered by the District and displays information for each charter school on whether or not the charter school is included in the District audit. There were no dependent or independent charter schools required to be reported by the District for the current fiscal year.

Hillsborough City School District
Schedule of Financial Trends and Analysis
For the Fiscal Year Ended June 30, 2016

	(Budget) ⁽¹⁾			
	2017	2016	2015	2014
General Fund				
Revenues and other financial sources	\$ 27,511,350	\$ 26,442,765	\$ 25,262,249	\$ 23,805,979
Expenditures	27,800,442	25,994,821	25,234,250	22,936,932
Other uses and transfers (out)	-	-	330,000	330,000
Total outgo	27,800,442	25,994,821	25,564,250	23,266,932
Change in fund balance	(289,092)	447,944	(302,001)	539,047
Adjustment for GASB 54 reclassifications	-	1,539,261	-	-
Ending fund balance	\$ 5,740,093	\$ 6,029,185	\$ 4,041,980	\$ 4,343,981
Available reserves ⁽²⁾	\$ 3,901,246	\$ 4,134,257	\$ 3,940,467	\$ 3,574,818
Designated for economic uncertainty	\$ -	\$ -	\$ -	\$ -
Unassigned fund balance	\$ 3,901,246	\$ 4,134,257	\$ 3,940,467	\$ 3,574,818
Available reserves as a percentage of total outgo	14%	16%	15%	15%
Total long-term debt	\$ 93,808,791	\$ 95,191,817	\$ 90,584,968	\$ 69,854,256
Average daily attendance at P-2	1,461	1,461	1,505	1,488

Average daily attendance has decreased by 27 over the past three years. The district anticipates ADA to remain level for 2017.

The general fund balance has increased by \$1,685,204 over the past three years and operated at a deficit in two out of the last three years. For a district this size, the state recommends available reserves of at least 3% of total general fund expenditures, transfers out and other uses (total outgo).

Total long-term debt has increased by \$25,337,561 over the past three years.

⁽¹⁾ Budget numbers are based on the first adopted budget of the fiscal year 2016/17

⁽²⁾ Available reserves consist of all unassigned fund balances in the general fund, which includes the reserve for economic uncertainties.

Hillsborough City School District
 Reconciliation of Annual Financial and Budget Report (SACS)
 to the Audited Financial Statements
 For the Fiscal Year Ended June 30, 2016

	General Fund	Special Reserve for Capital Outlay Fund	Bond Interest & Redemption Fund	Other Nonmajor Governmental Funds
June 30, 2016 Annual Financial and Budget Report Fund Balances	\$ 4,427,526	\$ 105,702	\$ 2,106,457	\$ 1,707,875
Adjustments and Reclassifications: GASB 54 reclassifications	<u>1,601,659</u>	<u>-</u>	<u>-</u>	<u>(1,601,659)</u>
June 30, 2015 Audited Financial Statements Fund Balances	<u>\$ 6,029,185</u>	<u>\$ 105,702</u>	<u>\$ 2,106,457</u>	<u>\$ 106,216</u>

Hillsborough City School District
Notes to Compliance Section
For the Fiscal Year Ended June 30, 2016

1. PURPOSE OF SCHEDULES

A. Schedule of Average Daily Attendance

Average daily attendance is a measurement of the number of pupils attending classes in the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments in state funds are made to school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

B. Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day and has not met its local control formula funding formula target. 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 46201 through 46206 and whether the Charter School complied with Education Code Sections 47612 and 47612.5.

C. Schedule of Charter Schools

This schedule is provided to list all charter schools chartered by the District and displays information for each charter school on whether or not the charter school is included in the District audit.

D. 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.

E. Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balances of all funds reported on the SACS report to the audited financial statements.

OTHER INDEPENDENT
AUDITOR'S REPORTS



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

Board of Trustees
Hillsborough City School District
Hillsborough, California

We have audited, in accordance with 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, each major fund, and the aggregate remaining fund information of Hillsborough Unified School District (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 20, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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 the 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.

C & A LLP

November 20, 2016
San Jose, California



**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE WITH REQUIREMENTS
 THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON STATE PROGRAMS**

The Honorable Board of Trustees
 Hillsborough Unified School District
 Hillsborough, California

Compliance

We have audited the Hillsborough Unified School District's (the District) compliance with the types of compliance requirements described in the *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel, that could have a direct and material effect on each of the District’s state programs identified below for the year ended June 30, 2016.

Management’s Responsibility

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

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for each applicable program as identified in the State’s audit guide, *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. We conducted our audit of compliance 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 *2015-16 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. Those standards, and state audit, guide 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 compliance with the state laws and regulations described in the schedule below, occurred. An audit includes examining, on a test basis, evidence supporting the District’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District’s compliance with those requirements.

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

<u>Description</u>	<u>Procedures Performed</u>
Local Education Agencies Other than Charter Schools:	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	No
Continuation Education	N/A
Instructional Time	Yes
Instructional Materials	Yes



<u>Description</u>	<u>Procedures Performed</u>
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	N/A
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	N/A
Middle or Early College High Schools	N/A
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
School Districts, County Offices of Education, and Charter Schools:	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After School Education and Safety Program:	
General Requirements	N/A
After School	N/A
Before School	N/A
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study-Course Based	N/A
Immunizations	Yes
Charter Schools:	
Attendance	N/A
Mode of Instruction	N/A
Nonclassroom-Based Instruction/Independent Study for Charter Schools	N/A
Determination of Funding for Nonclassroom-Based Instruction	N/A
Annual Instructional Minutes - Classroom Based	N/A
Charter School Facility Grant Program	N/A

We did not perform the audit procedures for the Independent Study program because the ADA was under the level that requires testing.

Opinion

In our opinion, Hillsborough City School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on State Programs for the fiscal year ended June 30, 2016.

C & A LLP

November 20, 2016
 San Jose, California

FINDINGS AND
RECOMMENDATIONS

Hillsborough City School District
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2016

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	<u>Unmodified</u>
Internal control over financial reporting:	
Material weaknesses?	___ Yes <u>x</u> No
Significant deficiencies identified not considered to be material weaknesses?	___ Yes <u>x</u> No
Non-compliance material to financial statements noted?	___ Yes <u>x</u> No

Federal Awards

The District did not spend \$750,000 or more in federal awards.

State Awards

Internal control over state programs:	
Material weaknesses?	___ Yes <u>x</u> No
Significant deficiencies identified not considered to be material weaknesses?	___ Yes <u>x</u> No
Type of auditor's report issued on compliance over state programs:	<u>Unmodified</u>

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

Section IV - State Award Findings and Questioned Costs

None

Hillsborough City School District
Schedule of Prior Year Findings and Recommendations
For the Fiscal Year Ended June 30, 2016

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

Section IV - State Award Findings and Questioned Costs

None