

PRELIMINARY OFFICIAL STATEMENT DATED JANUARY 6, 2011

NEW ISSUE — FULL BOOK-ENTRY

RATING: Standard & Poor's: "AAA"
(See "RATING" herein)

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to certain qualifications described herein, under existing law, the interest on the Series C Bonds is excluded from gross income for federal income tax purposes, and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See "TAX MATTERS" herein.

\$22,700,000*
HILLSBOROUGH CITY SCHOOL DISTRICT
(County of San Mateo, California)
General Obligation Bonds
Election of 2002, Series C

Dated: Date of Delivery

Due: September 1, as shown on inside cover

Authority for Issuance. The captioned Bonds (the "Series C Bonds") are being issued by the Hillsborough City School District (the "District") pursuant to a resolution of the Board of Trustees of the District adopted December 15, 2010 (the "District Resolution"). The Series C Bonds were authorized at an election of the registered voters of the District held on November 5, 2002, which authorized a total of \$66,800,000 principal amount of general obligation bonds (the "2002 Authorization"). The District has issued two prior series of general obligation bonds pursuant to the 2002 Authorization in the combined aggregate principal amount of \$42,001,422. In addition, the District has issued its 2008 General Obligation Bond Anticipation Notes in the principal amount of \$20,749,695.75 (the "2008 Notes"), in anticipation of the issuance of obligations, including the Series C Bonds, to retire the 2008 Notes. The Series C Bonds are being issued for the purpose of redeeming the 2008 Notes. The Series C Bonds will be the third issue of bonds pursuant to the 2002 Authorization.

Security. The Board of Supervisors of the County has the power and is obligated to annually levy *ad valorem* taxes upon all property subject to taxation by the District without limitation as to rate or amount (except certain personal property which is taxable at limited rates) for the payment of principal of and interest on the Series C Bonds. See "SECURITY FOR THE SERIES C BONDS."

Book-Entry Only. The Series C Bonds will be issued in book-entry form only and will be initially issued and registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"). Purchasers will not receive physical certificates representing their interests in the Series C Bonds. See "THE SERIES C BONDS — Book-Entry-Only System."

Payments. The Series C Bonds are being issued as both Current Interest Bonds and Capital Appreciation Bonds. Interest on the Current Interest Bonds accrues from the date of delivery and is payable semiannually on March 1 and September 1 of each year, commencing September 1, 2011, by check mailed to the person in whose name the Current Interest Bond is registered. The Capital Appreciation Bonds accrete interest from the dated date set forth above, compounded semiannually on March 1 and September 1 of each year, commencing on March 1, 2011, until maturity. Payments of principal of and interest on the Series C Bonds, or the accreted value of the Capital Appreciation Bonds, will be paid by The Bank of New York Mellon Trust Company, N.A., San Francisco, California, as Paying Agent, to DTC for subsequent disbursement to DTC Participants who will remit such payments to the beneficial owners of the Bonds.

Redemption. The Series C Bonds are subject to redemption prior to maturity as described herein. See "THE SERIES C BONDS - Optional Redemption" and "- Mandatory Sinking Fund Redemption."

MATURITY SCHEDULE
(See inside cover)

Cover Page. This cover page contains information for quick reference only. It is not a summary of all the provisions of the Series C Bonds. Investors must read the entire official statement to obtain information essential in making an informed investment decision.

The Series C Bonds will be sold by competitive bid on January 13, 2011 as set forth in the Official Notice of Sale for the Series C Bonds. The Series C Bonds are offered when, as and if issued, subject to the approval as to their legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel. Certain legal matters also will be passed upon for the District by Jones Hall, A Professional Law Corporation, San Francisco, California, as Disclosure Counsel to the District. It is anticipated that the Series C Bonds in definitive form will be available for delivery through the facilities of The Depository Trust Company, on or about January 27, 2011, in New York, New York.

This Official Statement is dated January __, 2011.

**Preliminary; subject to change.*

MATURITY SCHEDULE*

Base CUSIP†: _____

\$ _____ Current Interest Series C Serial Bonds

<u>Maturity Date*</u> <u>(September 1)</u>	<u>Principal</u> <u>Amount*</u>	<u>Coupon</u>	<u>Yield</u>	<u>CUSIP†</u>
2012	\$ 15,000			
2013	15,000			
2045	3,400,000			

\$ _____ Denominational Amount (\$ _____ Maturity Value)
Capital Appreciation Series C Bonds

<u>Maturity Date*</u> <u>(September 1)</u>	<u>Initial</u> <u>Principal</u> <u>Amount</u>	<u>Accretion</u> <u>Rate</u>	<u>Yield to</u> <u>Maturity</u>	<u>Maturity</u> <u>Value*</u>	<u>CUSIP†</u>
2015				\$ 10,000	
2016				20,000	
2017				30,000	
2018				45,000	
2019				60,000	
2020				80,000	
2021				90,000	
2022				110,000	
2023				125,000	
2024				150,000	
2025				170,000	
2026				190,000	
2027				220,000	
2028				665,000	
2029				725,000	
2030				785,000	
2031				845,000	
2032				6,595,000	
2033				7,035,000	
2034				7,505,000	
2035				8,005,000	
2036				8,535,000	
2037				9,105,000	
2038				9,710,000	
2039				10,350,000	
2040				11,035,000	
2041				11,765,000	
2042				12,540,000	
2043				13,370,000	
2044				14,250,000	
2045				2,755,000	

* Preliminary; subject to change and adjustment.

† Copyright 2011, American Bankers Association. CUSIP data herein are provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc., and are provided for convenience of reference only. Neither the District nor the Purchaser assumes any responsibility for the accuracy of these CUSIP data.

HILLSBOROUGH CITY SCHOOL DISTRICT

BOARD OF TRUSTEES

Mary Huser, *President*
Greg Dannis, *Vice-President*
Lynne Esselstein, *Clerk*
Mary Ellen Benninger, *Member*
Steven Koury, *Member*

DISTRICT ADMINISTRATION

Anthony Ranii, *Superintendent*
Elaine Ogawa, *Business Manager*

PROFESSIONAL SERVICES

FINANCIAL ADVISOR

Stone & Youngberg LLC
San Francisco, California

DISTRICT SPECIAL CONSULTANT

Cooperman Associates
Burlingame, California

BOND COUNSEL and DISCLOSURE COUNSEL

Jones Hall, A Professional Law Corporation
San Francisco, California

PAYING AGENT, TRANSFER AGENT, BOND REGISTRAR AND ESCROW BANK

The Bank of New York Mellon Trust Company, N.A.
Los Angeles, California

ESCROW AGENT

Causey Demgen & Moore
Denver, Colorado

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

Use of Official Statement. This Official Statement is submitted in connection with the sale of the Series C Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not a contract between any bond owner and the District.

No Offering Except by This Official Statement. No dealer, broker, salesperson or other person has been authorized by the District to give any information or to make any representations other than those contained in this Official Statement and, if given or made, such other information or representation must not be relied upon as having been authorized by the District.

No Unlawful Offers or Solicitations. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor may there be any sale of the Series C Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

Estimates and Projections. When used in this Official Statement and in any continuing disclosure by the District, in any press release and in any oral statement made with the approval of an authorized officer of the District, the words or phrases “will likely result,” “are expected to”, “will continue”, “is anticipated”, “estimate”, “project,” “forecast”, “expect”, “intend” and similar expressions identify “forward looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material.

Information in Official Statement. The information set forth in this Official Statement has been furnished by the District and other sources which are believed to be reliable, but it is not guaranteed by the Financial Advisor, Bond Counsel, Disclosure Counsel, or other consultants to the District, as to accuracy or completeness.

Document Summaries. All summaries of the Bond Resolution or other documents referred to in this Official Statement are made subject to the provisions of such documents and qualified in their entirety to reference to such documents, and do not purport to be complete statements of any or all of such provisions.

No Securities Laws Registration. The Series C Bonds have not been registered under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, in reliance upon exceptions therein for the issuance and sale of municipal securities. The Series C Bonds have not been registered or qualified under the securities laws of any state.

Effective Date. This Official Statement speaks only as of its date, and the information and expressions of opinion contained in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale of the Series C Bonds will, under any circumstances, give rise to any implication that there has been no change in the affairs of the District, County of San Mateo, the other parties described in this Official Statement, or the condition of the property within the District since the date of this Official Statement.

Website. The District maintains a website. However, the information presented on the website is not a part of this Official Statement and should not be relied upon in making an investment decision with respect to the Bonds.

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OFFICIAL STATEMENT

\$22,700,000*
HILLSBOROUGH CITY SCHOOL DISTRICT
(County of San Mateo, California)
General Obligation Bonds
Election of 2002, Series C

The purpose of this Official Statement, which includes the cover page, inside cover page and attached appendices, is to set forth certain information concerning the sale and delivery by the Hillsborough City School District (the “**District**”) of the bonds captioned above (the “**Series C Bonds**”). All capitalized terms used in this Official Statement, unless noted otherwise, have the meanings set forth in the Bond Resolution (as defined below).

INTRODUCTION

This Introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the Series C Bonds to potential investors is made only by means of the entire Official Statement.

The District. The District was established as a school district in 1910 and is located in the suburban community of Hillsborough on the San Francisco Peninsula. For fiscal year 2010-11, the District had an enrollment of approximately 1,016 students in K-5 grades and 496 students in grades 6-8, with a total enrollment of 1,512 students. The students are housed in four schools: North School, South School, West School and Crocker Middle School. The District currently employs 129 certificated employees and 54 classified employees. The current student-teacher ratio in the District is 18.47:1 in grades kindergarten through 3 and 20.13:1 in grades 4 through 8.

Description of the Series C Bonds. The Series C Bonds will be issued as current interest bonds (“**Current Interest Bonds**”) and as capital appreciation bonds (“**Capital Appreciation Bonds**”), as identified on the inside cover hereof, will be dated their date of delivery (the “**Dated Date**”) and will be issued as fully registered bonds, without coupons, in denominations of \$5,000 principal amount (or in the case of Capital Appreciation Bonds, \$5,000 Maturity Value) or any integral multiple thereof. The Series C Bonds will mature on September 1 in the years indicated on the inside cover page hereof.

*Preliminary; subject to change.

Registration. The Series C Bonds will be issued in fully registered form only, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York (“DTC”), and will be available to actual purchasers of the Series C Bonds (the “**Beneficial Owners**”) in the denominations set forth on the inside cover page hereof, under the book-entry system maintained by DTC, only through brokers and dealers who are or act through DTC Participants as described herein. Beneficial Owners will not be entitled to receive physical delivery of the Series C Bonds. See “APPENDIX F - Book-Entry Only System.” In the event that the book-entry-only system described below is no longer used with respect to the Series C Bonds, the Series C Bonds will be registered in accordance with the Bond Resolution described herein. See “THE SERIES C BONDS -- Registration, Transfer and Exchange of Bonds.”

Redemption. The Series C Bonds are subject to redemption prior to maturity as described in “THE SERIES C BONDS - Optional Redemption” and “- Mandatory Sinking Fund Redemption” herein.

Authority for Issuance of the Series C Bonds. Issuance of the Series C Bonds was approved by 55% or more of the voters of the District voting at an election held on November 5, 2002 (the “**2002 Authorization**”), and the Series C Bonds will be issued pursuant to certain provisions of the Government Code of the State and a resolution adopted by the District on December 15, 2010 (the “**Bond Resolution**”). See “THE SERIES C BONDS - Authority for Issuance” herein.

Security for the Series C Bonds. The Series C Bonds are general obligations of the District. The Board of Supervisors of the County has the power and is obligated to annually levy *ad valorem* taxes for the payment of the Series C Bonds and the interest thereon upon all property within the District subject to taxation without limitation of rate or amount (except certain personal property which is taxable at limited rates). See “SECURITY FOR THE SERIES C BONDS” herein.

Purpose of Issue. The net proceeds of the Series C Bonds will be used for the purpose of redeeming the District’s 2008 General Obligation Bond Anticipation Notes which were issued by the District on September 4, 2008 in the principal amount of \$20,749,695.75 (the “**2008 Notes**”). The 2008 Notes were issued in anticipation of the issuance of obligations, including the Series C Bonds, to retire the 2008 Notes. See “THE SERIES C BONDS -- Purpose of Issue” and “ESTIMATED SOURCES AND USES OF FUNDS” herein.

Offering and Delivery of the Series C Bonds. The Series C Bonds are offered when, as and if issued and received by the purchasers, subject to approval as to their legality by Bond Counsel (defined below). It is anticipated that the Series C Bonds will be available for delivery through the facilities of DTC on or about January 27, 2011.

Legal Matters. Issuance of the Series C Bonds is subject to the approving opinion of Jones Hall, A Professional Law Corporation, San Francisco, California (“**Bond Counsel**”), to be delivered in substantially the form attached hereto as Appendix D. Jones Hall, A Professional Law Corporation will also serve as Disclosure Counsel to the District. *Payment of the fees of Bond Counsel and Disclosure Counsel is contingent upon issuance of the Series C Bonds.*

Tax Matters. Assuming compliance with certain covenants and provisions of the Internal Revenue Code of 1986, in the opinion of Bond Counsel, interest on the Series C Bonds will not be includable in gross income for federal income tax purposes although it may be includable in the calculation for certain taxes. Also in the opinion of Bond Counsel, interest on

the Series C Bonds will be exempt from State of California (the “**State**”) personal income taxes. See “TAX MATTERS” herein.

Continuing Disclosure. The District has covenanted and agreed that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate. The form of the Continuing Disclosure Certificate is included in Appendix E hereto. See “APPENDIX E - Form of Continuing Disclosure Certificate.”

Other Information. For limiting factors about this Official Statement, see “General Information About This Official Statement” inside the cover hereof.

Copies of documents referred to herein and information concerning the Series C Bonds are available from the Superintendent, 300 El Cerrito Avenue, Hillsborough, California 94010, Phone: (650) 342-5193, Fax: (650) 342-5293 (the “**Superintendent’s Office**”). The District may impose a charge for copying, mailing and handling.

THE SERIES C BONDS

Authority for Issuance

The Series C Bonds are issued under the provisions of Article 4.5 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code (the “**Bond Law**”) and under the Bond Resolution. The District received authority pursuant to the 2002 Authorization to issue general obligation bonds in a principal amount not to exceed \$66,800,000 (the “**Bonds**”). The District has issued two prior series of general obligation bonds pursuant to the 2002 Authorization in the combined aggregate principal amount of \$42,001,422. The Series C Bonds will be the third issue of bonds pursuant to the 2002 Authorization. Upon the sale and delivery of the Series C Bonds, there will be \$2,098,578* remaining of the 2002 Authorization.

Purpose of Issue

On September 4, 2008, the District issued the 2008 Notes for the purpose of financing the acquisition and construction of educational facilities and projects pursuant to the 2002 Authorization. The 2008 Notes were issued as capital appreciation notes, and mature on September 1, 2013 in the maturity value of \$24,795,000. The 2008 Notes are subject to redemption prior to their stated maturity date, at the option of the District, from any source of available funds, in whole or in part, on any date on or after September 1, 2011, at a redemption price equal to the accreted value of the 2008 Notes to be redeemed, plus accrued interest to the date fixed for redemption, without premium.

The District is issuing the Series C Bonds for the purpose of providing for the redemption of the 2008 Notes on September 1, 2011, paying capitalized interest on the Series C Bonds through September 1, 2011, and paying costs of issuance.

The District will deliver a portion of the proceeds of the Series C Bonds to The Bank of New York Mellon Trust Company, N.A., as escrow agent (the “**Escrow Bank**”), for deposit in the escrow fund (the “**Escrow Fund**”) established under an Escrow Agreement Deposit and Trust Agreement (the “**Escrow Agreement**”), entered into by and between the District and the Escrow Bank.

*Preliminary; subject to change.

The Escrow Bank will invest amounts deposited in the Escrow Fund in the Federal Securities set forth in the Escrow Agreement. From the maturing principal of the Federal Securities and the investment income and other earnings thereon, and any moneys held in cash in the Escrow Fund, the Escrow Agent will pay the redemption price of the 2008 Notes on September 1, 2011.

Sufficiency of the deposits in the Escrow Fund for those purposes will be verified by Causey Demgen & Moore, certified public accountants, Denver, Colorado (the “**Verification Agent**”). See “VERIFICATION OF MATHEMATICAL ACCURACY” below.

The amounts held and invested by the Escrow Bank in the Escrow Fund are pledged solely to the payment of the 2008 Notes. Neither the funds deposited in the Escrow Fund nor the interest on the invested funds will be available for the payment of debt service with respect to the Series C Bonds.

Description of the Series C Bonds

The Series C Bonds are being issued as both Current Interest Bonds and Capital Appreciation Bonds. The Series C Bonds mature in the years and in the amounts as set forth on the inside cover page hereof. The Series C Bonds will be issued in book-entry form only, and will be initially issued and registered in the name of Cede & Co. as nominee for DTC. Purchasers will not receive physical certificates representing their interest in the Series C Bonds. See “Book-Entry Only System” below and “APPENDIX F – Book-Entry Only System.”

Current Interest Bonds. The Current Interest Bonds shall be issued in the denomination of \$5,000 principal amount each or any integral multiple thereof. Interest with respect to the Current Interest Bonds accrues from the Dated Date, and is payable semiannually on March 1 and September 1 of each year (each an “**Interest Payment Date**”) commencing September 1, 2011. Each Current Interest Bond shall bear interest from the Interest Payment Date next preceding the date of registration and authentication thereof unless (i) it is registered and authenticated as of a Bond Payment Date, in which event it shall bear interest from such date, or (ii) it is registered and authenticated prior to an Interest Payment Date and after the close of business on the fifteenth (15th) day of the month preceding such Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or (iii) it is registered and authenticated prior to July 15, 2011, in which event it shall bear interest from the date of original delivery; *provided, however*, that if at the time of authentication of a Current Interest Bond, interest is in default thereon, such Current Interest Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon.

Interest on the Current Interest Bonds, including the final interest payment upon maturity, is payable by check, draft or wire of the Paying Agent mailed via first-class mail to the Owner thereof at such Owner’s address as it appears on the bond register maintained by the Paying Agent at the close of business on the fifteenth (15th) day of the month preceding the Bond Payment Date (the “**Record Date**”), or at such other address as the owner may have filed with the Paying Agent for that purpose, or upon written request filed with the Paying Agent as of the Record Date by an owner of at least \$1,000,000 in aggregate principal amount of Current Interest Bonds, by wire transfer. Principal of and premium (if any) on the Current Interest Bonds is payable in lawful money of the United States of America upon presentation and surrender at the principal office of the Paying Agent. See also “Book Entry Only System” below.

Capital Appreciation Bonds. The Capital Appreciation Bonds are dated the Dated Date, and accrete interest from such date until the maturity thereof. The initial principal amounts

(the “**Denominational Amount**”) of each maturity of the Capital Appreciation Bonds shall be as shown on the inside cover page hereof. The Capital Appreciation Bonds are issued in denominations such that the maturity value thereof shall equal \$5,000 or an integral multiple thereof. The Capital Appreciation Bonds are payable only at maturity, in the years and amounts set forth on the inside cover page hereof.

Interest on the Capital Appreciation Bonds is compounded on March 1 and September 1 of each year, commencing March 1, 2011 (each, a “**Compounding Date**”). Each Capital Appreciation Bond accretes in value daily over the term to its maturity, from its Denominational Amount on the Dated Date to its accreted value on its maturity date (the “**Maturity Value**”). The accreted value payable on any date shall be determined solely by reference to the Table of Accreted Values attached to such Capital Appreciation Bond. See “APPENDIX G – TABLE OF ACCRETED VALUES.”

The Accreted Value of any Capital Appreciation Bond at maturity shall be payable by check, draft or wire mailed by first-class mail, in lawful money of the United State of America upon presentation and surrender of such Capital Appreciation Bond at the Office of the Paying Agent. See also “Book Entry Only System” below.

Paying Agent

The Treasurer-Tax Collector of County of San Mateo (the “**County Treasurer**”) has appointed The Bank of New York Mellon Trust Company, N.A. to act as the registrar, transfer agent, and paying agent for the Series C Bonds (the “**Paying Agent**”). As long as DTC is the registered owner of the Series C Bonds and DTC’s book-entry method is used for the Series C Bonds, the Paying Agent will send any notice of redemption or other notices to owners only to DTC. Any failure of DTC to advise any DTC Participant, or of any DTC Participant to notify any Beneficial Owner, of any such notice and its content or effect will not affect the validity or sufficiency of the proceedings relating to the redemption of the Series C Bonds called for redemption or of any other action covered by such notice. The Paying Agent and the District have no responsibility or liability for any aspects of the records relating to or payments made on account of beneficial ownership, or for maintaining, supervising or reviewing any records relating to beneficial ownership, of interests in the Series C Bonds.

Redemption of Series C Bonds

Optional Redemption - Current Interest Bonds. The Current Interest Bonds maturing on or before September 1, 20__ are not subject to redemption prior to their respective stated maturities. The Current Interest Bonds maturing on or after September 1, 20__ are subject to redemption prior to maturity, as a whole or in part, in a manner determined by the District and by lot within a maturity, at the option of the District, from any available source of funds, on September 1, 20__ and on any date thereafter, at a redemption price equal to the principal amount thereof together with accrued interest thereon to the date fixed for redemption, without premium.

Optional Redemption - Capital Appreciation Bonds. The Capital Appreciation Bonds maturing on or before September 1, 20__ are not subject to redemption prior to their respective stated maturities. The Capital Appreciation Bonds maturing on or after September 1, 20__ are subject to redemption prior to maturity, as a whole or in part, in a manner determined by the District and by lot within a maturity, at the option of the District, from any available source of funds, on September 1, 20__ and on any date thereafter, at a redemption price equal to the Accreted Value thereof together with accrued interest thereon to the date fixed for redemption, without premium.

Mandatory Sinking Fund Redemption. The Current Interest Bonds maturing on September 1, 20____ (the “**Term Bonds**”), are subject to redemption prior to maturity from mandatory sinking fund payments on September 1 of each year, on and after September 1, 20____, at a redemption price equal to the principal amount thereof, together with accrued interest to the date fixed for redemption, without premium on the dates and in the principal amounts set forth in the following table:

<u>Redemption Date</u> <u>(September 1)</u>	<u>Principal Amount</u>
--	-------------------------

If some but not all of such Term Bonds have been optionally redeemed, the aggregate principal amount of such Term Bonds to be redeemed in each year pursuant to mandatory sinking fund redemption will be reduced on a pro rata basis in integral multiples of \$5,000, as designated in written a written request of the District filed with the Paying Agent.

Selection of Series C Bonds for Redemption. Whenever less than all of the outstanding Series C Bonds of any one maturity are designated for redemption, the Paying Agent shall select the outstanding Series C Bonds of such maturity to be redeemed by lot in any manner deemed fair by the Paying Agent. For purposes of such selection, each Series C Bond shall be deemed to consist of individual bonds of \$5,000 denominations each (\$5,000 Maturity Value with respect to the Capital Appreciation Bonds), which may be separately redeemed.

Notice of Redemption. The Paying Agent, at the direction of the District, shall cause notice of any redemption to be mailed by first class mail, postage prepaid, at least 30 days but not more than 60 days prior to the date fixed for redemption, to (i) one or more of the Information Services, and (ii) to the respective Owners of any Series C Bonds designated for redemption, at their addresses appearing on the Registration Books; but such mailing shall not be a condition precedent to such redemption and failure to mail or to receive any such notice shall not affect the validity of the proceedings for the redemption of such Series C Bonds. Such notice shall state the redemption date and the redemption price and, if less than all of the then outstanding Series C Bonds are to be called for redemption, shall designate the serial numbers of the Series C Bonds to be redeemed by giving the individual number of each Series C Bond or by stating that all Series C Bonds between two stated numbers, both inclusive, or by stating that all of the Series C Bonds of one or more maturities have been called for redemption, and shall require that such Series C Bonds be then surrendered at the Office of the Paying Agent for redemption at the said redemption price, giving notice also that further interest on such Series C Bonds will not accrue from and after the redemption date.

Partial Redemption of Series C Bonds. Upon surrender of Series C Bonds redeemed in part only, the District shall execute and the Paying Agent shall authenticate and deliver to the Owner, at the expense of the District, a new Series C Bond, of the same maturity, of authorized denominations in aggregate principal amount equal to the aggregate principal amount of the unredeemed portion of the Series C Bond.

Registration, Transfer and Exchange of Series C Bonds

If the book-entry system is discontinued, the District shall cause the Paying Agent to maintain and keep at its principal corporate trust office all books and records necessary for the registration, exchange and transfer of the Series C Bonds, and the person in whose name a Series C Bond is registered on the Bond Register shall be regarded as the absolute owner of that Series C Bond. Payment of the principal of and interest on any Series C Bond shall be made only to or upon the order of that person; neither the District nor the Paying Agent shall be affected by any notice to the contrary, but the registration may be changed as provided the Bond Resolution.

Any Series C Bond may, in accordance with its terms, be transferred, upon the Registration Books, by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Series C Bond for cancellation at the Office at the Paying Agent, accompanied by delivery of a written instrument of transfer in a form approved by the Paying Agent, duly executed. The Paying Agent shall require the payment by the Owner requesting such transfer of any tax or other governmental charge required to be paid with respect to such transfer. Whenever any Series C Bond is surrendered for transfer, the District shall execute and the Paying Agent shall authenticate and deliver a new Series C Bond, for like aggregate principal amount.

Series C Bonds may be exchanged at the Office of the Paying Agent for a like aggregate principal amount of Series C Bonds of authorized denominations and of the same maturity. The Paying Agent shall require the payment by the Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange. No exchanges of Series C Bonds are required to be made (a) during the period established by the Paying Agent for selection of Series C Bonds for redemption or (b) with respect to a Series C Bond which has been selected for redemption.

DEBT SERVICE SCHEDULE

The following table shows the debt service schedule with respect to the Series C Bonds (assuming no optional redemptions). See "APPENDIX B – DISTRICT FINANCIAL INFORMATION – Long-Term Borrowing" for the combined debt service due on the Series A Bonds, the Series B Bonds and the Series C Bonds, all of which have been issued pursuant to the 2002 Authorization.

Period Ending (September 1)	<u>Current Interest Bonds</u>		<u>Capital Appreciation Bonds</u>		Total Annual Debt Service
	Annual Principal Payment	Annual Interest Payment ⁽¹⁾	Annual Principal Payment	Annual Accreted Interest Payment ⁽²⁾	
2011					
2012					
2013					
2014					
2015					
2016					
2017					
2018					
2019					
2020					
2021					
2022					
2023					
2024					
2025					
2026					
2027					
2028					
2029					
2030					
2031					
2032					
2033					
2034					
2035					
2036					
2037					
2038					
2039					
2040					
2041					
2042					
2043					
2044					
2045					
Total					

⁽¹⁾Interest payments on the Current Interest Bonds will be made semiannually on March 1 and September 1 of each year, commencing September 1, 2011.

⁽²⁾The Capital Appreciation Bonds are payable only at maturity on September 1 of the year of maturity, and interest on such Capital Appreciation bonds is compounded semiannually on March 1 and September 1 of each year, commencing March 1, 2011.

SOURCES AND USES OF FUNDS

The sources and uses of funds with respect to the Series C Bonds are as follows:

Sources of Funds:

Principal Amount of Series C Bonds
Original Issue Premium

Total Sources

Uses of Funds:

Deposit to Escrow Fund
Deposit to Debt Service Fund ⁽¹⁾
Purchaser's Discount
Costs of Issuance ⁽²⁾

Total Uses

(1) Represents capitalized interest on the Series C Bonds through September 1, 2011.

(2) Costs of Issuance include legal fees, printing costs, financial advisor's fees, rating agency fees and other miscellaneous expenses.

SECURITY FOR THE SERIES C BONDS

General

The Board of Supervisors of the County has the power and is obligated to levy *ad valorem* taxes for the payment of the Series C Bonds and the interest (or accreted value) thereon upon all property within the District subject to taxation by the District without limitation as to rate or amount (except certain personal property which is taxable at limited rates). Such taxes are required to be levied annually, in addition to all other taxes, during the period that the Series C Bonds are outstanding in an amount sufficient to pay the principal of and interest (or accreted value) on the Series C Bonds when due. Such taxes, when collected, will be deposited into the appropriate debt service fund for the Series C Bonds, which is maintained by the County and which is created by statute for the payment of principal of and interest on the Series C Bonds when due. **Although the County is obligated to levy an *ad valorem* tax for the payment of the Series C Bonds, and will maintain the Debt Service Funds pledged to the repayment of the Series C Bonds, the Series C Bonds are not a debt of the County.**

The moneys in the Debt Service Fund, to the extent necessary to pay the principal of and interest on (or accreted value of) the Series C Bonds as the same become due and payable, shall be transferred by the County to the Paying Agent which, in turn, shall pay such moneys to DTC to pay the principal of and interest on the Series C Bonds. DTC will thereupon make payments of principal of and interest on (or accreted value of) the Series C Bonds to the DTC Participants who will thereupon make payments of principal and interest (or accreted value) to the beneficial owners of the Series C Bonds. See "APPENDIX F – Book-Entry System."

The amount of the annual *ad valorem* tax levied by the County to repay the Series C Bonds will be determined by the relationship between the assessed valuation of taxable property in the District and the amount of debt service due on the Series C Bonds. A reduction in the assessed valuation of taxable property in the District caused by economic factors beyond the District's control, such as economic recession, slower growth, or deflation of land values, a relocation out of the District by one or more major property owners, or the complete or partial destruction of such property caused by, among other eventualities, an earthquake, flood or other natural disaster, could cause a reduction in the assessed value of the District and necessitate an unanticipated increase in the annual tax levy. Notwithstanding any decrease in assessed valuation, the District has directed the County, and the County is obligated, to levy *ad valorem* taxes upon all property within the District subject to taxation without limitation of rate or amount, for the payment of the Series C Bonds and the interest and redemption premium, if any, thereon, in accordance with the California Education Code.

***Ad Valorem* Property Taxation**

Taxes are levied by the County for each fiscal year on taxable real and personal property which is situated in the District as of the preceding January 1. For assessment and collection purposes, property is classified either as "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State-assessed public utilities property and real property having a tax lien which is sufficient, in the opinion of the County Assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of each fiscal year. If unpaid, such taxes become delinquent on December 10 and

April 10, respectively, and a 10% penalty attaches to any delinquent payment. Property on the secured roll with respect to which taxes are delinquent becomes tax defaulted on or about June 30 of the fiscal year. Such property may thereafter be redeemed by payment of a penalty of 1.5% per month to the time of redemption, plus costs and a redemption fee. If taxes are unpaid for a period of five years or more, the property is subject to sale by the Tax Collector and Treasurer.

Property taxes on the unsecured roll are due as of the January 1 lien date and become delinquent, if unpaid, on August 31. A 10% penalty attaches to delinquent unsecured taxes. If unsecured taxes are unpaid by 5:00 p.m. on October 31, an additional penalty of 1.5% attaches to them on the first day of each month until paid. The taxing authority has four ways of collecting delinquent unsecured personal property taxes: (1) bringing a civil action against the taxpayer; (2) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the County Clerk and County Recorder's office in order to obtain a lien on certain property of the taxpayer; and (4) seizing and selling personal property, improvements, or possessory interests belonging or assessed to the assessee.

Assessed Valuations

The assessed valuation of property in the District is established by the County Assessor, except for public utility property which is assessed by the State Board of Equalization. Assessed valuations are reported at 100% of the "full value" of the property, as defined in Article XIII A of the California Constitution. The full value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or to reflect a reduction in the consumer price index or comparable data for the area, or to reflect declines in property value caused by substantial damage, destruction or other factors, including assessment appeals filed by property owners. For a discussion of how properties currently are assessed, see "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS."

Certain classes of property, such as churches, colleges, not-for-profit hospitals, and charitable institutions, are exempt from property taxation and do not appear on the tax rolls.

Property within the District had a total local taxable assessed valuation for fiscal year 2010-11 of \$6,660,428,029, of which \$6,652,565,600 was secured and \$7,862,429 was unsecured. Shown in the following table are the assessed valuations for the District from 1979-80 to 2010-11.

HILLSBOROUGH CITY SCHOOL DISTRICT
Assessed Valuation
Fiscal Year 1979-80 through Fiscal Year 2010-11

<u>Fiscal Year</u>	<u>Net Taxable Assessed Valuation</u>	<u>Annual % Change</u>
1979-80	\$ 630,097,308	--
1980-81	728,229,428	15.57%
1981-82	825,584,361	13.37
1982-83	915,485,797	10.89
1983-84	974,580,261	6.45
1984-85	1,057,277,979	8.49
1985-86	1,132,725,301	7.14
1986-87	1,237,704,201	9.27
1987-88	1,390,311,560	12.33
1988-89	1,507,943,110	8.46
1989-90	1,708,219,763	13.28
1990-91	1,940,420,165	13.59
1991-92	2,053,981,677	5.85
1992-93	2,202,075,166	7.21
1993-94	2,304,476,770	4.65
1994-95	2,380,312,707	3.29
1995-96	2,479,461,159	4.17
1996-97	2,569,781,153	3.64
1997-98	2,715,515,645	5.67
1998-99	2,937,409,370	8.17
1999-00	3,187,029,861	8.50
2000-01	3,500,101,504	9.82
2001-02	3,992,826,417	14.08
2002-03	4,250,168,459	6.45
2003-04	4,562,578,521	7.35
2004-05	4,819,418,663	5.63
2005-06	5,171,396,333	7.30
2006-07	5,581,306,815	7.93
2007-08	5,924,919,825	6.16
2008-09	6,289,066,424	6.15
2009-10	6,659,154,719	5.88
2010-11	6,660,428,029	0.02

Note: Assessed values represent net taxable assessed valuation of secured and unsecured property, including the homeowner's exemption. Assessed valuations of utility property assessed by the State Board of Equalization are not included, beginning in 1988-89.

Source: California Municipal Statistics, Inc.

Property in the District is primarily located in the Town of Hillsborough, although less than 1% is located in other jurisdictions, as shown below.

**HILLSBOROUGH CITY SCHOOL DISTRICT
2010-11 Assessed Valuation by Jurisdiction**

<u>Jurisdiction:</u>	<u>Assessed Valuation in School District</u>	<u>% of School District</u>	<u>Assessed Valuation of Jurisdiction</u>	<u>% of Jurisdiction in School District</u>
City of Burlingame	\$ 6,948,205	0.10%	\$ 7,011,121,988	0.10%
Town of Hillsborough	6,653,455,425	99.90	6,654,980,054	99.98
City of San Mateo	24,399	<.01	16,387,091,926	<.01
Total San Mateo County	\$6,660,428,029	100.00%	141,897,936,990	4.69

(1) Before deduction of redevelopment incremental valuation.
Source: California Municipal Statistics, Inc.

Property in the District is mostly residential, with 98.9% of assessed valuation comprised of residential use, and 95.4% of total parcels used for residential purposes. Shown in the following table are the secured assessed valuations and parcels by land use for fiscal year 2010-11.

**HILLSBOROUGH CITY SCHOOL DISTRICT
Local Secured Property
2010-11 Assessed Valuation and Parcels by Land Use**

	<u>Assessed Valuation</u>	<u>% of</u>	<u>No. of</u>	<u>Parcels</u>	<u>No. of Taxable</u>	<u>%</u>
	<u>Valuation (1)</u>	<u>Total</u>	<u>Parcels</u>	<u>% of</u>	<u>Parcels</u>	<u>Total</u>
Non-Residential:						
Recreational	\$7,324,541	0.11%	7	0.17%	7	0.17%
Government/Social/Institutional	0	0.00	25	0.61	0	0.00
Miscellaneous/Water Services	1,076,662	0.02	27	0.66	14	0.35
Subtotal Non-Residential	\$8,401,203	0.13%	59	1.45%	21	0.52%
Residential:						
Single Family Residence	\$6,573,597,476	98.81%	3,877	95.30%	3,877	96.51%
Miscellaneous Residential	5,617,938	0.08	4	0.10	4	0.10
Subtotal Residential	\$6,579,215,414	98.90%	3,881	95.40%	3,881	96.61%
Vacant Parcels	\$64,948,983	0.98%	128	3.15%	115	2.86%
Total	\$6,652,565,600	100.00%	4,068	100.00%	4,017	100.00%

(1) Local secured assessed valuation; excluding tax-exempt property.
Source: California Municipal Statistics, Inc.

Shown below is the assessed valuation of single family homes in the District in 2010-11, in \$100,000 increments. The median assessed value single family home was approximately \$1,388,000 in 2010-11.

HILLSBOROUGH CITY SCHOOL DISTRICT
Per Parcel 2010-11 Assessed Valuation of Single Family Homes

Single Family Residential	No. of Parcels 3,877	2010-11 Assessed Valuation \$6,573,597,476	Average Assessed Valuation \$1,695,537	Median Assessed Valuation \$1,387,928
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2010-11 Assessed Valuation	No. of Parcels (1)	% of Total	Cumulative % of Total	Total Valuation	% of Total	Cumulative % of Total
\$0 - \$99,999	0	0.000%	0.000%	\$ 0	0.000%	0.000%
\$100,000 - \$199,999	98	2.528	2.528	17,611,215	0.268	0.268
\$200,000 - \$299,999	384	9.905	12.432	93,695,264	1.425	1.693
\$300,000 - \$399,999	199	5.133	17.565	68,776,119	1.046	2.739
\$400,000 - \$499,999	131	3.379	20.944	58,810,403	0.895	3.634
\$500,000 - \$599,999	95	2.450	23.394	52,430,543	0.798	4.432
\$600,000 - \$699,999	110	2.837	26.232	71,156,406	1.082	5.514
\$700,000 - \$799,999	108	2.786	29.017	81,688,437	1.243	6.757
\$800,000 - \$899,999	136	3.508	32.525	115,742,979	1.761	8.518
\$900,000 - \$999,999	137	3.534	36.059	129,865,002	1.976	10.493
\$1,000,000 - \$1,099,999	147	3.792	39.850	154,568,213	2.351	12.844
\$1,100,000 - \$1,199,999	138	3.559	43.410	158,454,900	2.410	15.255
\$1,200,000 - \$1,299,999	132	3.405	46.815	164,725,326	2.506	17.761
\$1,300,000 - \$1,399,999	147	3.792	50.606	198,917,624	3.026	20.787
\$1,400,000 - \$1,499,999	109	2.811	53.418	157,915,195	2.402	23.189
\$1,500,000 - \$1,599,999	126	3.250	56.668	195,518,022	2.974	26.163
\$1,600,000 - \$1,699,999	89	2.296	58.963	146,428,201	2.228	28.391
\$1,700,000 - \$1,799,999	119	3.069	62.032	208,128,173	3.166	31.557
\$1,800,000 - \$1,899,999	135	3.482	65.515	248,159,850	3.775	35.332
\$1,900,000 - \$1,999,999	121	3.121	68.636	234,851,894	3.573	38.905
\$2,000,000 and greater	<u>1,216</u>	<u>31.364</u>	100.000	<u>4,016,153,710</u>	<u>61.095</u>	100.000
Total	3,877	100.000%		\$6,573,597,476	100.000%	

(1) Improved single family residential parcels. Excludes condominiums and parcels with multiple family units.
Source: California Municipal Statistics, Inc.

Appeals of Assessed Value

There are two types of appeals of assessed values that could adversely impact property tax revenues within the District.

Appeals may be based on Proposition 8 of November 1978, which requires that for each January 1 lien date, the taxable value of real property must be the lesser of its base year value, annually adjusted by the inflation factor pursuant to Article XIII A of the State Constitution, or its full cash value, taking into account reductions in value due to damage, destruction, depreciation, obsolescence, removal of property or other factors causing a decline in value. See "LIMITATIONS ON TAX REVENUES" in Appendix A.

Under California law, property owners may apply for a reduction of their property tax assessment by filing a written application, in form prescribed by the State Board of Equalization, with the County board of equalization or assessment appeals board. In most cases, the appeal is filed because the applicant believes that present market conditions (such as residential home prices) cause the property to be worth less than its current assessed value. Proposition 8 reductions may also be unilaterally applied by the County Assessor.

Any reduction in the assessment ultimately granted as a result of such appeal applies to the year for which application is made and during which the written application was filed. These reductions are subject to yearly reappraisals and are adjusted back to their original values when market conditions improve. Once the property has regained its prior value, adjusted for inflation, it once again is subject to the annual inflationary factor growth rate allowed under Article XIII A. See "LIMITATIONS ON TAX REVENUES" in Appendix A.

A second type of assessment appeal involves a challenge to the base year value of an assessed property. Appeals for reduction in the base year value of an assessment, if successful, reduce the assessment for the year in which the appeal is taken and prospectively thereafter. The base year is determined by the completion date of new construction or the date of change of ownership. Any base year appeal must be made within four years of the change of ownership or new construction date.

The District cannot predict the changes in assessed values that might result from pending or future appeals by taxpayers. Any reduction in aggregate District assessed valuation due to appeals, as with any reduction in assessed valuation due to other causes, will cause the tax rate levied to repay the Series C Bonds to increase accordingly, so that the fixed debt service on the Series C Bonds (and other outstanding general obligation bonds, if any) may be paid.

Property Tax Collections

The Board of Supervisors of the County has adopted the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "**Teeter Plan**"), as provided for in Section 4701 *et seq.* of the California Revenue and Taxation Code. Under the Teeter Plan, each entity levying property taxes in the County may draw on the amount of uncollected secured taxes credited to its fund, in the same manner as if the amount credited had been collected. The District participates in the Teeter Plan, and thus receives 100% of secured property taxes levied in exchange for foregoing any interest and penalties collected on delinquent taxes. However, under the statute creating the Teeter Plan, the Board of Supervisors could under certain circumstances terminate the Teeter Plan in its entirety and, in addition, the Board of Supervisors could terminate the Teeter Plan if the delinquency rate for all *ad valorem* property taxes levied within the District in any year exceeds 3%. In the event that the Teeter Plan were terminated, the amount of the levy of *ad valorem* property taxes in the District would depend upon the collections of the *ad valorem* property taxes and delinquency rates experienced with respect to the parcels within the District.

The following table shows secured tax charges and delinquencies for taxes collected by the County on all property within the District's boundaries for fiscal years 2007-08 through 2009-10. Comparable information for previous years is not available.

**HILLSBOROUGH CITY SCHOOL DISTRICT
Secured Tax Charges and Delinquency Rates
Fiscal Years 2007-08 through 2009-10**

<u>Fiscal Year</u>	<u>Secured Tax Charge</u> ⁽¹⁾	<u>Amount Delinquent June 30</u>	<u>Percent Delinquent June 30</u>
2007-08	\$1,768,151.61	\$21,566.86	1.22%
2008-09	1,880,480.93	31,715.02	1.69
2009-10	1,980,169.31	31,734.97	1.60

(1) Debt service levy only.

(2) The County Board of Supervisors can terminate the Teeter Plan with respect to the District if the delinquency rate for ad valorem property taxes within the District in any year exceeds 3%.

Source: California Municipal Statistics, Inc.

Largest Secured Property Taxpayers in District

The following table shows the 20 largest secured property taxpayers in the District as determined by secured assessed valuation in fiscal year 2010-11.

HILLSBOROUGH CITY SCHOOL DISTRICT Largest Local Secured Taxpayers Fiscal Year 2010-11

	<u>Property Owner</u>	<u>Primary Land Use</u>	<u>2010-11 Assessed Valuation</u>	<u>% of Total (1)</u>
1.	Theodore H. Kruttschnitt	Residence	\$ 34,850,909	0.52%
2.	James G.B. De Martini III, Trust	Residence	24,059,517	0.36
3.	Val E. Vaden, Trust	Residence	18,047,305	0.27
4.	Peter Spiro Stamos, Trust	Residence	17,622,420	0.26
5.	Christopher R. Redlich, Jr., Trust	Residence	16,538,896	0.25
6.	George Hsu, Trust	Residence	16,510,082	0.25
7.	Otto J. Miller	Residence	15,355,519	0.23
8.	Dipanjani Deb, Trust	Residence	13,034,492	0.20
9.	Patrick C. Tai, Trust	Residence	11,879,509	0.18
10.	Nick M. Swinmurn, Trust	Residence	11,756,264	0.18
11.	Constantia Capital	Residence	10,900,000	0.16
12.	David J. and Anne F.A. Steirman	Residence	10,457,464	0.16
13.	M. and Rupert H. Johnson, Jr.	Residence	9,989,622	0.15
14.	John W. and Lynda G. Marren	Residence	9,755,285	0.15
15.	Roberta P. Gates, Trust	Residence	9,528,234	0.14
16.	Michael H. Podell, Trust	Residence	9,119,227	0.14
17.	Scott Alan Bedford, Trust	Residence	9,058,023	0.14
18.	Jeffrey Litke, Trust	Residence	9,051,622	0.14
19.	Wang-Lu Frank Nong	Residence	8,921,044	0.13
20.	Robert D. and Sandra L. Schmaier	Residence	8,881,885	0.13
			<u>\$275,317,319</u>	<u>4.14%</u>

Source: California Municipal Statistics, Inc.

Overlapping Debt Obligations

Set forth below is a direct and overlapping debt report (the "**Debt Report**") prepared by California Municipal Statistics, Inc. and effective December 1, 2010, for debt issued as of December 1, 2010. The Debt Report is included for general information purposes only. The District has not reviewed the Debt Report for completeness or accuracy and makes no representation in connection therewith.

The Debt Report generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the District in whole or in part. Such long-term obligations generally are not payable from revenues of the District (except as indicated) nor are they necessarily obligations secured by land within the District. In many cases, long-term obligations issued by the specified public agency are payable only from the general fund or other revenues of such public agency.

The contents of the Debt Report are as follows: (1) the first column indicates the public agencies which have outstanding debt as of the date of the Debt Report and whose territory overlaps the District; (2) the second column shows the percentage of the assessed valuation of the overlapping public agency identified in column 1 which is represented by property located within the District; and (3) the third column is an apportionment of the dollar amount of each public agency's outstanding debt (which amount is not shown in the table) to property in the

District, as determined by multiplying the total outstanding debt of each agency by the percentage of the District's assessed valuation represented in column 2.

HILLSBOROUGH CITY SCHOOL DISTRICT
Statement of Direct and Overlapping Bonded Debt
Dated as of December 1, 2010

2010-11 Assessed Valuation: \$6,660,428,029

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable (1)</u>	<u>Debt 12/1/10</u>
San Mateo Community College District	5.141%	\$31,554,429
San Mateo Union High School District	14.700	44,106,947
Hillsborough City School District	100.000	57,181,118 (2)
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$132,842,494
 <u>OVERLAPPING GENERAL FUND DEBT:</u>		
San Mateo County General Fund Obligations	5.141 %	\$17,355,235
San Mateo County Board of Education Certificates of Participation	5.141	662,418
San Mateo Union High School District Certificates of Participation	14.700	9,694,097
City of Burlingame Certificates of Participation	0.085	11,203
City of Burlingame Pension Obligations	0.085	23,464
San Mateo County Mosquito Abatement District Certificates of Participation	7.027	19,324
TOTAL GROSS OVERLAPPING GENERAL FUND DEBT		\$27,765,741
Less: City of Burlingame supported obligations		1,381
TOTAL NET OVERLAPPING GENERAL FUND DEBT		\$27,764,360
 GROSS COMBINED TOTAL DEBT		\$160,608,235 (3)
NET COMBINED TOTAL DEBT		\$160,606,854

(1) Based on 2009-10 ratios.

(2) Excludes the Series C Bonds to be sold, but includes the 2008 Notes to be redeemed.

(3) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2010-11 Assessed Valuation:

Direct Debt (\$57,181,118)	0.86%
Total Overlapping Tax and Assessment Debt	1.99%
Gross Combined Total Debt.....	2.41%
Net Combined Total Debt	2.41%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/10: \$0

Source: California Municipal Statistics, Inc.

COUNTY INVESTMENT POOL

The following information has been furnished by the County for use in this Official Statement. The District has not verified the accuracy or adequacy of the information provided by the County.

Under the California Education Code, the District is required to pay all monies received from any source into the County of San Mateo Treasury to be held on behalf of the District. While the proceeds of the Series C Bonds will be largely held by the Escrow Bank pursuant to the Escrow Agreement, other of the District's funds, including monies from which debt service is to be paid, will be held by the County Treasurer.

The County Investment Pool (the "**Investment Pool**" or the "**Pool**") consists of monies deposited with the County Treasurer by County departments and agencies, school districts, certain non-County governmental agencies and special assessment districts. Most of the Pool's depositors are required by State law to invest their moneys in the Pool. Approximately 28.9% of the Pool's moneys is allocable to voluntary depositors.

Each depositor is assigned a distinct fund number within the Investment Pool. Cash represented by the fund balances is commingled in a Pooled Cash Portfolio for investment purposes; no funds are segregated for separate investment. Investments are selected from those authorized by California Government Code Section 53635 ("**Code**"). Authorized investments include obligations of the United States Treasury, agencies of the United States government, federally sponsored enterprises, local and State bond issues, bankers acceptances, commercial paper of prime quality, collateralized and negotiable certificates of deposit, repurchase and reverse repurchase agreements, medium term corporate notes, shares of beneficial interest in diversified management companies (mutual funds) and asset backed (including mortgage related) securities.

Government Code Section 53646(a)(1) states: "In the case of county government, the Treasurer may annually render to the Board of Supervisors and any oversight committee a statement of investment policy, which the board shall review and approve at a public meeting."

The Board of Supervisors approved the current Investment Policy, which became effective January 1, 2008. The current Statement of Investment Policy can be accessed through the County Treasurer's web site at www.sanmateocountytaxcollector.org.

The approved Investment Policy provides that the County's investment objectives are "capital preservation and liquidity, while seeking high current income consistent with capital preservation and liquidity." The Investment Policy provides that 5-50% of the assets in the Pool can be invested in the securities of any single issuer other than the United States Treasury, agencies of the United States government and federally sponsored enterprises. Additionally, investments in repurchase or reverse repurchase agreements are authorized investments and can equal up to 100% of the total Pool. As of the date of the most recent investment report, repurchase agreements equaled 8.5% of the investments in the Pool.

In accordance with California law, the County of San Mateo Board of Supervisors created an eight-member Treasury Oversight Committee (the "**TOC**") on April 2, 1996. The statutory role of the TOC is to review the Investment Policy as prepared by the Treasurer and to make recommendations, to monitor policy compliance as well as investment performance and to cause an annual independent audit to be performed. The TOC meets three times each year to accomplish its tasks.

The Monthly Investment Report for the Pool as of November 30, 2010, is attached as APPENDIX G. As described above, a wide range of investments is authorized under State law and the Investment Policy. In addition, the value of various investments in the Pool will fluctuate on a daily basis as a result of several factors, including generally prevailing interest rates and other economic conditions. For further information concerning County investments, access the County's website: <http://www.sanmateocountytaxcollector.org/investmentReports.html>. *The reference to this internet website is shown for reference and convenience only, the information contained within the website may not be current and has not been reviewed by the District and is not incorporated herein by reference.*

LEGAL OPINION

The proceedings in connection with the issuance of the Series C Bonds are subject to the approval as to their legality of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel for the District. A copy of the legal opinion, certified by the official in whose office the original is filed, will be printed on each Series C Bond. Certain legal matters will also be passed upon for the District by Jones Hall, as Disclosure Counsel. The fees of Bond Counsel and Disclosure Counsel are contingent upon the issuance and delivery of the Series C Bonds.

TAX MATTERS

Federal Tax Status. In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the Series C Bonds is excluded from gross income for federal income tax purposes, such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings.

The opinions set forth in the preceding paragraph are subject to the condition that the District comply with all requirements of the Internal Revenue Code of 1986 (the "**Tax Code**") that must be satisfied subsequent to the issuance of the Series C Bonds in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The District has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the Series C Bonds.

Tax Treatment of Original Issue Discount and Premium. If the initial offering price to the public (excluding bond houses and brokers) at which a Series C Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes "**original issue discount**" for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public (excluding bond houses and brokers) at which each Series C Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes "**original issue premium**" for purposes of federal income taxes and State of California personal income taxes. De minimis original issue discount is disregarded.

Under the Tax Code, original issue discount is treated as interest excluded from federal gross income and exempt from State of California personal income taxes to the extent properly

allocable to each owner thereof subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of the Series C Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straightline interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such Series C Bonds to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such Series C Bond. The Tax Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the Series C Bonds who purchase the Series C Bonds after the initial offering of a substantial amount of such maturity. Owners of such Series C Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series C Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount on such Series C Bonds under federal individual and corporate alternative minimum taxes.

Under the Tax Code, original issue premium is amortized on an annual basis over the term of the Series C Bond (said term being the shorter of the Series C Bond's maturity date or its call date). The amount of original issue premium amortized each year reduces the adjusted basis of the owner of the Series C Bond for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a Series C Bond is amortized each year over the term to maturity of the Series C Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straightline interpolations between compounding dates). Amortized Bond premium is not deductible for federal income tax purposes. Owners of Premium Bonds, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to State of California personal income tax and federal income tax consequences of owning such Series C Bonds.

California Tax Status. In the further opinion of Bond Counsel, interest on the Series C Bonds is exempt from California personal income taxes.

Other Tax Considerations. Owners of the Series C Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the Series C Bonds may have federal or state tax consequences other than as described above. Bond Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the Series C Bonds other than as expressly described above.

NO LITIGATION

No litigation is pending or threatened concerning the validity of the Series C Bonds, and a certificate to that effect will be furnished to purchasers at the time of the original delivery of the Series C Bonds. The District is not aware of any litigation pending or threatened that (i) questions the political existence of the District, (ii) contests the District's ability to receive *ad valorem* taxes or to collect other revenues or (iii) contests the District's ability to issue and retire the Series C Bonds.

TAX-EXEMPT STATUS

As discussed under the heading “TAX MATTERS,” certain acts or omissions of the District in violation of its covenants in the Bond Resolution could result in the interest on the Series C Bonds being includable in gross income for purposes of federal income taxation retroactive to the date of issuance of the Series C Bonds. Should such an event of taxability occur, the Series C Bonds would not be subject to a special redemption and would remain outstanding.

RATING

Standard & Poor’s Ratings Services, a division of The McGraw Hill Companies, Inc. (“**S&P**”) has assigned the rating of “AAA” to the Series C Bonds. The District has provided certain additional information and materials to the rating agencies (some of which does not appear in this Official Statement). Such rating reflects only the view of S&P and an explanation of the significance of such rating or ratings outlooks may be obtained only from S&P. There is no assurance that any credit ratings given to the Series C Bonds will be maintained for any period of time or that the ratings may not be lowered or withdrawn entirely by such rating agencies if, in their judgment, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Series C Bonds.

CONTINUING DISCLOSURE

The District has covenanted, for the benefit of holders and beneficial owners of the Series C Bonds to provide certain financial information and operating data relating to the District to the Municipal Securities Rulemaking Board (an “**Annual Report**”) not later than nine months after the end of the District’s fiscal year (which currently would be March 31), commencing March 31, 2012 with the report for the 2010-2011 Fiscal Year, and to provide notices of the occurrence of certain enumerated events. The notices of material events will be filed by the District with the Municipal Securities Rulemaking Board. The specific nature of the information to be contained in an Annual Report or the notices of material events is set forth below under the caption APPENDIX E – “Form of Continuing Disclosure Certificate.” These covenants have been made in order to assist the purchaser of the Series C Bonds in complying with S.E.C. Rule 15c2-12(b)(5). The District has never failed to comply in all material respects with any previous undertakings with regard to said Rule to provide annual reports or notices of material events

VERIFICATION OF MATHEMATICAL ACCURACY

The Verification Agent, upon delivery of the Series C Bonds, will deliver a report of the mathematical accuracy of certain computations, contained in schedules provided to them on behalf of the District, relating to (a) the sufficiency of the anticipated amount of proceeds of the Series C Bonds and other funds available to pay, when due, the principal, whether at maturity or upon prior redemption, interest and redemption premium requirements of the 2008 Notes and (b) the “yields” on the amount of proceeds held and invested prior to redemption of the 2008 Notes and on the Series C Bonds considered by Bond Counsel in connection with the opinion rendered by Bond Counsel that the Series C Bonds are not “arbitrage bonds” within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended.

The report of the Verification Agent will include the statement that the scope of their engagement is limited to verifying mathematical accuracy, of the computations contained in such schedules provided to them, and that they have no obligation to update their report because of events occurring, or data or information coming to their attention, subsequent to the date of their report.

FINANCIAL ADVISOR AND CONSULTANT

The District has retained Stone & Youngberg LLC, San Francisco, California, as Financial Advisor, and Cooperman Associates, Burlingame, California, as a special consultant (the “**District Consultant**”) in connection with the authorization and delivery of the Series C Bonds. The fees for such services rendered with respect to the sale of the Series C Bonds are contingent upon the authorization and delivery of the Series C Bonds. Neither the Financial Advisor nor the District Consultant assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Series C Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

The Financial Advisor and the District Consultant have provided the following statement for inclusion in this Official Statement: The Financial Advisor and the District Consultant have reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the District and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but neither the Financial Advisor nor the District Consultant guarantees the accuracy or completeness of such information. The District Consultant’s role is limited to acting as pricing advisor to the District Board for purposes of the issuance of Series C Bonds.

COMPETITIVE SALE OF SERIES C BONDS

The Series C Bonds are being purchased for reoffering by _____ (the “**Purchaser**”), the successful bidder pursuant to competitive bidding held on January 13, 2011. The Purchaser has agreed to purchase the Series C Bonds for \$_____ (representing the aggregate principal amount of the Series C Bonds, plus original issue premium of \$_____, less a purchaser’s discount of \$_____).

The Purchaser intends to offer the Series C Bonds to the public at the offering prices set forth on the inside cover page of this Official Statement. The Purchaser may offer and sell to certain dealers and others at a price lower than the offering prices stated on the cover page hereof. The offering price may be changed from time to time by the Purchaser.

ADDITIONAL INFORMATION

The discussions herein about the Bond Resolution, the Escrow Agreement and the Continuing Disclosure Certificate are brief outlines of certain provisions thereof. Such outlines do not purport to be complete and for full and complete statements of such provisions reference is made to such documents. Copies of these documents mentioned are available from the District upon written request and following delivery of the Series C Bonds will be on file at the offices of the Paying Agent in Redwood City, California.

References are also made herein to certain documents and reports relating to the District; such references are brief summaries and do not purport to be complete or definitive. Copies of such documents are available upon written request to the District.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the District and the purchasers or Owners of any of the Series C Bonds.

The execution and delivery of this Official Statement have been duly authorized by the District.

**HILLSBOROUGH CITY SCHOOL
DISTRICT**

By: _____
Superintendent

APPENDIX A

GENERAL AND FINANCIAL INFORMATION ABOUT THE DISTRICT

The information in this and other sections concerning the District's operations and operating budget is provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal of or interest on the Bonds is payable from the general fund of the District. The Bonds are payable from the proceeds of an ad valorem tax required to be levied by the County in an amount sufficient for the payment thereof. See "SECURITY FOR THE SERIES C BONDS" herein.

GENERAL INFORMATION

Background; Basic Aid District

The Hillsborough City School District was established as a school district in 1910 and is located in the suburban community of Hillsborough on the San Francisco Peninsula. For fiscal year 2010-11, the District had an enrollment of approximately 1,016 students in K-5 grades and 496 students in grades 6-8, with a total enrollment of 1,512 students. The students are housed in four schools: North School, South School, West School and Crocker Middle School. The District currently employs 129 certificated employees and 54 classified employees. The current student-teacher ratio in the District is 18.47:1 in grades kindergarten through 3 and 20.13:1 in grades 4 through 8.

Since 1989-90 to the current fiscal year, the District's local property taxes have exceeded the State's calculated revenue limit for the District, resulting in the District being treated as a "**Basic Aid**" district, meaning that the District does not receive a revenue limit entitlement from the State, but instead is entitled to keep its share of local property taxes in excess of the revenue limit. For more information on the District's Basic Aid status, see "-Basic Aid District" below.

Recent Enrollment Trends

District enrollment increased by 15% between 1996-97 and 2010-11. The following table shows recent enrollment history for the District.

HILLSBOROUGH CITY SCHOOL DISTRICT Annual Enrollment Fiscal Years 1996-97 through 2010-11

<u>School Year</u>	<u>Enrollment</u>	<u>Annual Change</u>
1996-97	1,312	-
1997-98	1,332	1.5
1998-99	1,318	(1.0)
1999-00	1,374	4.2
2000-01	1,401	1.9
2001-02	1,405	0.2
2002-03	1,369	(2.5)
2003-04	1,365	(0.2)
2004-05	1,388	1.6
2005-06	1,417	2.0
2006-07	1,437	1.4
2007-08	1,451	0.9
2008-09	1,473	1.5
2009-10	1,504	2.1
2010-11	1,512	0.5

Source: California Department of Education, Educational Demographics Unit; Hillsborough City School District.

Administration

Board of Education. The District is governed by a five-member Board of Education, each member of which is elected to a four-year term. Current members of the Board of Education, together with their office and the date their term expires, are listed below:

HILLSBOROUGH CITY SCHOOL DISTRICT Board of Education

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Mary Huser	President	December 2011
Greg Dannis	Vice President	December 2011
Lynne Esselstein	Clerk	December 2013
Mary Ellen Benninger	Member	December 2013
Steven Koury	Trustee	December 2013

Superintendent and Administrative Personnel. The Superintendent of the District, appointed by the Board, is responsible for management of the day-to-day operations and supervises the work of other District administrators. Following are brief biographies of the Superintendent and Business Manager.

Anthony Ranii, Superintendent. Mr. Ranii has over 10 years of experience in education. He received his Bachelor's of Arts from Allegheny College, Meadville, Pennsylvania, and his Masters from National University in San Jose, California. Mr. Ranii taught for 7 years at Fairwood School in the Sunnyvale School District, served as the principal at West Elementary School

within the District for 3 years, and has been the Superintendent of the District for over a year.

Elaine Ogawa, Business Manager. Ms. Ogawa has been the Business Manager at the District for over 8 years. She received her Bachelor's of Science and her Masters in Business Administration from the University of Southern California, Los Angeles, California. Prior to joining the District, her experience includes 18 years of working as an accountant at a publicly traded corporation, non-profit social service agency, non-profit educational agency, and a privately held corporation.

Employee Relations

For the 2010-11 fiscal year, the District employs approximately 112.4 full-time equivalent certificated employees (teaching staff), 41.4 full-time equivalent classified employees, and 10.9 full-time equivalent administrators (8.9 certificated and 2.0 classified).

Certificated and classified employees are represented by two bargaining groups: the Hillsborough Teachers Association ("**HTA**"), which is the exclusive bargaining group for all certificated non-management employees of the District, and the California School Employees Association Chapter 465 ("**CSEA**"), which is the bargaining group for all classified (except confidential and management) employees of the District. The District's contract with HTA expires on June 30, 2011 and the District's contract with CSEA expires on June 30, 2012.

Pension Plans

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Certificated employees are members of the State Teachers' Retirement System ("**STRS**") and classified employees are members of the Public Employees' Retirement System ("**PERS**").

STRS. The District participates in STRS. This plan covers all certificated employees who are employed at least half-time. In order to receive STRS benefits, an employee must be at least 55 years old and have provided five years of service to California public schools. The District's contribution to STRS for fiscal year 2008-09 was \$906,479, for fiscal year 2009-10 was \$914,068 (unaudited actual) and is budgeted to be \$941,149 for fiscal year 2010-11.

PERS. The District also participates in PERS. This plan covers all classified personnel who are employed at least four hours per day. In order to receive PERS benefits, an employee must be at least 50 years old and have provided five years of service to California schools. The District's contribution to PERS for fiscal year 2008-09 was \$215,164, for fiscal year 2009-10 was \$238,677 (unaudited actual) and is budgeted to be \$266,579 for fiscal year 2010-11.

Other Post-Employment Benefits

In addition to pension benefits described above, the District provides a health care contribution, to be applied to medical and/or dental insurance, to eligible retired employees ("**OPEB**"). Eligible employees will receive the contribution for 5 years from the date of retirement or until eligible for Medicare, whichever is greater.

The contribution requirements are established and may be amended by the District, HTA, CSEA, and the unrepresented groups. The District currently finances OPEB on a pay-as-

you-go basis. During the year ending June 30, 2009, the District contributed \$62,615 to the Plan, for the year ending June 30, 2010 the amount was \$84,549 (unaudited actual), and the amount of \$108,900 is budgeted for 2010-11.

The Governmental Accounting Standards Board (“**GASB**”) has published Statement No. 45 which requires the District to account for OPEB. The most recently prepared actuarial report is dated September 1, 2007 and identified an unfunded actuarial accrued liability (“**UAAL**”) for OPEB of \$2,407,434 as of July 1, 2008. This amount represented the present value of all benefits expected to be paid by the District for its current and future retirees, based on certain assumptions.

The District’s annual OPEB cost is calculated based on the annual required contribution of the employer (“**ARC**”), an amount actuarially determined in accordance with the parameters of the GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded liabilities (or funding excess) over a period of not to exceed 30 years. The following table shows the District net OPEB obligation for fiscal year ending June 30, 2009.

**HILLSBOROUGH CITY SCHOOL DISTRICT
Summary of OPEB Obligation**

ARC/Annual OPEB cost (expense)	\$ 223,193
Contributions made	<u>(62,615)</u>
Increase in net OPEB Obligation	160,578
Net OPEB Obligation – beginning of year	--
Net OPEB Obligation – end of year	\$160,578

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2009 were as follows:

Fiscal Year Ended	Annual OPEB Cost	% of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2009	\$223,193	28%	\$160,578

See “APPENDIX B – AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR FISCAL YEAR 2008-09 - Note 11 – Post-Employment Health Care Plan and Other Post-Employment Benefits (OPEB) Obligation.”

DISTRICT FINANCIAL INFORMATION

Accounting Practices

The accounting practices of the District conform to generally accepted accounting principles in accordance with policies and procedures of the California School Accounting Manual. This manual, according to Section 41010 of the State of California Education Code, is to be followed by all California school districts.

District revenues are recognized during the period in which they become both measurable and available to finance operations of the current fiscal period. District expenditures are reflected in the fiscal period in which the liability occurred.

District accounting is organized on the basis of governmental fund types, with each fund consisting of a separate set of self-balancing accounts containing assets, liabilities and fund balances, including revenues and expenditures. The major fund classification is the general fund, which accounts for the general operations of the District. The District's fiscal year begins on July 1 and ends on June 30.

Financial Statements

Generally. The District's general fund finances the legally authorized activities of the District for which restricted funds are not provided. General fund revenues are derived from such sources as State school fund apportionments, taxes, use of money and property, and aid from other governmental agencies. The District's June 30, 2009 Audited Financial Statements were prepared by Vavrinek, Trine, Day & Co., LLP, Palo Alto, California. See Appendix B hereto for the District's June 30, 2009 Audited Financial Statements. The District's June 30, 2010 Audited Financial Statements are scheduled for Board approval on January 13, 2011.

Basic Aid District. Because the District is a Basic Aid District, the District does not receive a revenue limit entitlement from the State, but instead keeps its share of local property taxes. The District became a Basic Aid district in fiscal year 1990 and has continued to be such since that time. In fiscal year 2008-09, the District received \$4,509,950 in local property taxes over its State revenue limit. In 2009-10 the amount was \$5,720,502 and in 2010-11 \$5,552,529 is anticipated. These funds provide the primary source for all instructional programs and the resources to pay for all operating costs in the District's general fund. While the District does not derive its revenue limit funds from the State, funds for certain special purpose programs, or "categorical aid" are derived from the State. See also "-State Funding of Education and Revenue Limitations" below.

Summary Financial Information. The following table shows the District's audited actual amounts for Fiscal Years 2006-07 through 2008-09, unaudited actuals for Fiscal Year 2009-10 and figures taken from the District's First Interim Budget Report for Fiscal Year 2010-11.

HILLSBOROUGH CITY SCHOOL DISTRICT
General Fund Summary of Revenues, Expenditures and Fund Balances
Fiscal Years 2006-07 through 2008-09 (audited), 2009-10 (Unaudited Actuals)
and 2010-11 (1st Interim Report)

	2006-07 <u>Audited</u>	2007-08 <u>Audited</u>	2008-09 <u>Audited</u>	2009-10 <u>Actuals</u>	2010-11 <u>1st Interim</u>
Revenues:					
Revenue Limit Sources	\$11,432,648	\$12,114,850	\$12,944,532	\$13,693,973	\$13,595,770
Federal Revenue	285,162	292,862	413,561	581,015	555,111
Other State Revenue	2,044,653	1,822,758	1,863,503	1,000,833	837,772
Other Local Revenue	5,677,264	5,880,389	5,716,428	5,621,239	5,544,796
Total Revenue	19,439,727	20,110,859	20,938,024	20,897,060	20,533,449
Expenditures:					
Current:					
Instruction	13,267,225	13,581,170	13,894,575	(1)	(1)
Instruction related activities:					
Supervision of instruction	642,575	857,139	860,822		
Library, media and technology	203,218	299,577	286,292		
School site administration	1,139,492	1,173,693	1,180,003		
Pupil Services:					
Home-to-school transportation	--	33,335	1,190		
All other pupil services	499,320	530,527	587,861		
General administration:					
Data processing	275,411	247,178	306,688		
All other general administration	1,373,958	1,484,526	1,450,518		
Plant services	1,864,904	1,637,964	1,732,843		
Facility acquisition and construct.	80,499	26,370			
Community services	231,399	238,644	212,315		
Other outgo	145,290	174,281	141,231		
Debt service-principal	27,012	18,651	17,345		
Debt service-interest and other	75,936	57,446	51,125		
Total Expenditures	19,826,239	20,360,501	20,722,808	19,998,190	20,896,677
Excess of Revenues Over (Under) Expenditures	(386,512)	(249,642)	215,216	898,869	(363,228)
Other Financing Sources (Uses)					
Operating Transfer In	--	5,000	44,500	44,500	44,500
Other Sources	--	26,370	--	--	--
Operating Transfer Out	(56,000)		(103,743)	(50,674)	(50,674)
Total Other Sources & Uses	(56,000)	31,370	(59,243)	(6,174)	(6,174)
Net Change in Fund Balance	(442,512)	(218,272)	155,973	892,695	(369,402)
Fund Balance, Beginning of Year	3,046,513	2,604,001	2,385,729	2,541,702	3,434,397
Fund Balance, End of Year	\$2,604,001	\$2,385,729	\$2,541,702	\$3,434,397	\$3,064,995

(1) The expenditure categories used in the District's Audited Financial Statement under GASB No. 34 are different than the expenditure categories used for the District's Budgets therefore 2009-10 and 2010-11 expenditures are not categorized.
Source: Hillsborough City School District.

District Reserves. The District is generally required by the State to maintain a reserve for economic uncertainty of 3% of total expenditures and other financing uses. The District's unreserved fund balance as a percentage of operating expenditures has historically exceeded 3%, being 11.2% in 2008-09, 15.2% in 2009-10 (unaudited) and 12.0% in 2010-11 (budgeted).

District Response to State Reductions in Education Funding. As a result of the State's budgeting difficulties (see "-State Funding of Education and Recent State Budgets" below), Basic Aid districts have had to forfeit their "fair share" of certain State-funded categorical

funds. In order to maintain its reserves and respond to the State's decreased levels in education funding, the District has taken actions to reduce administration by (1) reorganizing district office staff, (2) cutting back on some of the programs offered, and (3) reducing operating expenditures.

District Budget Process

The District is required by provisions of the State Education Code to maintain a balanced budget each year, where the sum of expenditures plus the ending fund balance cannot exceed revenues plus the carry-over fund balance from the previous year. The State Department of Education imposes a uniform budgeting format for all California school districts.

Under current law, the District Board of Education is required to approve an adopted budget by July 1 of each fiscal year. The District's 2010-11 Budget was adopted on June 23, 2010 and was approved by the San Mateo County Superintendent of Schools on August 12, 2010.

Interim Certifications Regarding Ability to Meet Financial Obligations. Under the provisions of AB 1200, each school district is required to file interim certifications with the county office of education as to its ability to meet its financial obligations for the remainder of the then-current fiscal year and, based on current forecasts, for the subsequent two fiscal years. The county office of education reviews the certification and issues either a positive, negative or qualified certification. A positive certification is assigned to any school district that will meet its financial obligations for the current fiscal year and subsequent two fiscal years. A negative certification is assigned to any school district that will be unable to meet its financial obligations for the remainder of the fiscal year or subsequent fiscal year. A qualified certification is assigned to any school district that may not meet its financial obligations for the current fiscal year or subsequent two fiscal years.

Under California law, any school district and office of education that has a qualified or negative certification in any fiscal year may not issue, in that fiscal year or in the next succeeding fiscal year, certificates of participation, tax anticipation notes, revenue bonds or any other debt instruments that do not require the approval of the voters of the district, unless the applicable county superintendent of schools determines that the district's repayment of indebtedness is probable.

District's Budget Approval/Disapproval and Certification History. All of the District's Interim Financial Reports have received positive certifications pursuant to AB 1200 in the last five years, and each of its budgets has been approved by the San Mateo County Superintendent of Schools.

State Funding of Education and Revenue Limitations

Public school districts receive funding from a variety of local, state, and federal sources. Some of the funds are earmarked for specific purposes, such as special education and class size reduction, while the rest are for general purposes. The amount of general purpose funding a school district receives per student is computed up to a revenue limit per unit of average daily attendance ("A.D.A.") and is called its "revenue limit." It is a combination of local property taxes and state taxes. Each of the school districts in California has its own revenue limit, based on its type (elementary, high, or unified), size (small or large), historical spending patterns, and several other variables which, together, comprise a complex formula.

As described above, a “Basic Aid” or “Excess Revenue” district is one whose local property taxes meet or exceed its revenue limit. A Basic Aid district keeps the money from local property taxes and does not rely on the State for revenue limit funding. The District is a Basic Aid district.

HILLSBOROUGH CITY SCHOOL DISTRICT
Average Daily Attendance
Fiscal Years 2000-01 through 2010-11

Fiscal Year	Average Daily Attendance ⁽¹⁾	Annual Change in A.D.A.
2000-01	1,348	--
2001-02	1,353	5
2002-03	1,325	(28)
2003-04	1,322	(3)
2004-05	1,341	19
2005-06	1,362	21
2006-07	1,391	29
2007-08	1,405	14
2008-09	1,428	23
2009-10	1,453	15
2010-11	1,459	6

Note: All amounts are rounded to the nearest whole number.
Source: Hillsborough City School District.

District Revenue Sources

The District categorizes its general fund revenues into four sources, summarized below:

HILLSBOROUGH CITY SCHOOL DISTRICT
District Revenue Sources

Revenue Source	Percentage of Total District General Fund Revenues			
	2007-08	2008-09	2009-10 ⁽¹⁾	2010-11 ⁽²⁾
Revenue limit sources ⁽³⁾	60.2%	61.8%	65.5%	66.2%
Federal revenues	1.5	2.0	2.8	2.7
Other State revenues	9.1	8.9	4.8	4.1
Other local revenues ⁽⁴⁾	29.2	27.3	26.9	27.0

(1) Unaudited.

(2) First Interim Report.

(3) The District is a Basic Aid District, therefore most revenue limit sources are derived from local property tax revenues.

(4) The District has a voter-approved parcel tax which provides revenues that can be used for any purpose set forth in the voter-approved measure.

Source: Hillsborough City School District.

Revenue Limit Sources. Since fiscal year 1973-74, California school districts have operated under general purpose revenue limits established by the State Legislature. In general, revenue limits are calculated for each school district by multiplying (1) the average daily attendance for such district by (2) a base revenue limit per unit of A.D.A. The revenue limit calculations are adjusted annually in accordance with a number of factors designated primarily to provide cost of living increases and to equalize revenues among all California school districts of the same type.

Because the District is a Basic Aid district, funding of its revenue limit is currently provided by local property taxes. Reductions in assessed valuations may result in reductions in the revenues received by the District, but are not compensated by the State so long as the District is a Basic Aid District.

Federal Revenues. The federal government provides funding for several District programs, including special education programs, programs under No Child Left Behind, the Individuals With Disabilities Education Act, and specialized programs such as Drug Free Schools.

Other State Revenues. The District receives some other State revenues, which are primarily restricted revenues funding items such as the Special Education Master Plan, Economic Impact Aid, School Improvement Program, instructional materials, and various block grants. Although some of these programs were cut in 2008-09, they were subsequently funded with funds made available by the federal government.

The District receives State aid from the California State Lottery (the "**Lottery**"), which was established by a constitutional amendment approved in the November 1984 general election. Lottery revenues must be used for the education of students and cannot be used for non-instructional purposes such as real property acquisition, facility construction, or the financing of research. Moreover, Proposition 20 approved in March 2000 requires that 50% of the increase in Lottery revenues over 1997-98 levels must be restricted to use on instructional materials. The amount of Lottery revenues received by the District in 2009-10 was \$192,926.

Other Local Revenues. In addition to local property tax revenues, the District receives significant additional local revenues from interagency services, a voter-approved parcel tax (the "**Parcel Tax**") and a nonprofit foundation (the "**Foundation**"). The Foundation and the parcel tax are described below.

- The Hillsborough Schools Foundation is a community-based, non-profit, educational foundation which has been in existence for over 32 years. This Foundation raises funds through community activities and events, as well as soliciting donations, and provides critical funding for the District. The Foundation provided \$3.356 million in funding to the District in 2008-09, \$3.03 million in 2009-10 and \$3.08 million is budgeted for 2010-11. The District can use funds collected by the Foundation for any purpose, unless a campaign is held to raise money for a specific purpose. In 2010-11, \$80,000 is specifically targeted to science.
- Voter-Approved Parcel Tax. The District has a voter-approved Parcel Tax, which was originally approved in 1988. The Parcel Tax has no sunset provision or ending date, and provides for annual escalators based on increases in the District's appropriations limit, which changes based on the annual percentage change in the State's per capita personal income (the "inflation factor") and the percentage change in the District's average daily attendance. The Parcel Tax can continue to be collected for the District for successive 5-year periods upon the recommendation of a citizen's committee and approval by the District Board. The last 5-year period was approved in May of 2007. The amount levied per parcel in 2009-10 was \$524.78 and in 2010-11 is \$524.78. The parcel tax produced approximately \$1,796,935 in revenues in 2009-10 and \$1,781,232 is expected in 2010-11. The 2010-11 Parcel Tax revenues are lower than 2009-10 because the number of seniors requesting exemptions is higher.

Long-Term Borrowing

The District's long-term debt as of June 30, 2009 is summarized below.

	Balance <u>June 30, 2009</u>	Due in <u>one Year</u>
General obligation bonds	\$ 39,856,416	\$ 715,000
Bond premium	807,669	43,249
Compensated absences	113,852	113,852
Capital leases	70,427	21,472

Source: Hillsborough City School District.

General Obligation Bonds.

2002 Authorization. A special bond election was held in the District on November 5, 2002 for the purpose of submitting to the qualified electors of the District the question whether bonds should be issued in the maximum aggregate principal amount of \$66,800,000, and 65.6% of the votes cast approved such issuance.

Under the 2002 Authorization (of which \$24,798,578.00 is remaining), the District has outstanding the following general obligation bonds:

- **Series A Bonds.** On June 25, 2003, the District issued \$13,500,000 General Obligation Bonds, Election of 2002, Series 2003A, currently outstanding in the aggregate amount of \$9,660,000. The Series A Bonds are scheduled to mature through 2027.
- **Series B Bonds.** On August 29, 2006 the District issued \$28,501,422 General Obligation Bonds, Election of 2002, Series B, currently outstanding in the aggregate amount of \$26,771,422. Of this amount, \$12,011,422 are initial denominational amount of capital appreciation bonds which accrete to an aggregate value of \$33,600,000 in the years 2023 through 2031.

The Series C Bonds are the third series of bonds issued pursuant to the 2002 Authorization, issued for the purpose of redeeming the 2008 Notes, as described herein. Upon the sale and delivery of the Series C Bonds there will be \$2,098,578* remaining of the 2002 Authorization.

*Preliminary; subject to change.

The following table shows the combined debt service schedule with respect to the Series A Bonds, the Series B Bonds and the Series C Bonds (assuming no optional redemptions).

HILLSBOROUGH CITY SCHOOL DISTRICT
Election of 2002 General Obligation Bonds- Combined Debt Service

Bond Year Ending (September 1)	Series A Bonds	Series B Bonds	Series C Bonds	Total Annual Debt Service
2011	\$ 658,400.00	\$ 1,483,787.50		\$ 2,142,187.50
2012	701,200.00	1,115,425.00		1,816,625.00
2013	557,500.00	1,321,300.00		1,878,800.00
2014	592,075.00	1,407,612.50		1,999,687.50
2015	630,250.00	1,499,037.50		2,129,287.50
2016	671,850.00	1,600,150.00		2,272,000.00
2017	716,700.00	1,702,400.00		2,419,100.00
2018	764,625.00	1,814,000.00		2,578,625.00
2019	814,943.76	1,930,500.00		2,745,443.76
2020	866,731.26	2,052,750.00		2,919,481.26
2021	925,131.26	2,190,000.00		3,115,131.26
2022	985,331.26	2,331,000.00		3,316,331.26
2023	1,051,250.00	2,485,000.00		3,536,250.00
2024	1,123,250.00	2,640,000.00		3,763,250.00
2025	1,193,000.00	2,815,000.00		4,008,000.00
2026	1,272,000.00	3,000,000.00		4,272,000.00
2027	1,354,500.00	3,190,000.00		4,544,500.00
2028	--	4,420,000.00		4,420,000.00
2029	--	4,705,000.00		4,705,000.00
2030	--	5,010,000.00		5,010,000.00
2031	--	5,335,000.00		5,335,000.00
Total	\$14,878,737.54	\$54,047,962.50		\$68,926,700.04

See "DEBT SERVICE SCHEDULES" in the body of this Official Statement for the debt service (assuming no optional redemptions) due on the District's Series C Bonds.

Capital Leases. The District has entered into various capital lease arrangements. The District's liability on lease agreements with options to purchase are as follows:

Fiscal Year Ending June 30	Annual Lease Payment
2011	\$ 26,550
2012	17,061
2013	<u>10,629</u>
Total	\$54,240

Short-Term Borrowing. The District issued its Tax and Revenue Anticipation Notes on July 1, 2010 in the principal amount of \$345,000, which will mature on July 1, 2011 and bear interest at 2% per annum.

STATE FUNDING OF EDUCATION AND RECENT STATE BUDGETS

General. The State requires that from all State revenues there first shall be set apart the moneys to be applied for support of the public school system and public institutions of higher education. Public school districts in California are dependent on revenues from the State for a large portion of their operating budgets. California school districts receive an average of about 55% of their operating revenues from various State sources. The primary source of funding for school districts is the revenue limit, which is a combination of State funds and local property taxes (see “– State Funding of Education and Revenue Limitations” above). State funds typically make up the majority of a district’s revenue limit. School districts also receive substantial funding from the State for various categorical programs.

The availability of State funds for public education is a function of constitutional provisions affecting school district revenues and expenditures (see “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS”), the condition of the State economy (which affects total revenue available to the State general fund), and the annual State budget process. Decreases in State revenues may significantly affect appropriations made by the legislature to school districts.

The following information concerning the State’s budgets for the current and most recent preceding years has been compiled from publicly-available information provided by the State. Neither the District, the County, nor the Purchaser, Financial Advisor or other professionals engaged by the District in connection with the issuance of the Bonds are responsible for the information relating to the State’s budgets provided in this section. Further information is available from the Public Finance Division of the State Treasurer’s Office.

The Budget Process. The State’s fiscal year begins on July 1 and ends on June 30. The annual budget is proposed by the Governor by January 10 of each year for the next fiscal year (the “**Governor’s Budget**”). Under State law, the annual proposed Governor’s Budget cannot provide for projected expenditures in excess of projected revenues and balances available from prior fiscal years. Following the submission of the Governor’s Budget, the Legislature takes up the proposal.

Under the State Constitution, money may be drawn from the State Treasury only through an appropriation made by law. The primary source of the annual expenditure authorizations is the Budget Act as approved by the Legislature and signed by the Governor. The Budget Act must be approved by a majority vote of each House of the Legislature. The Governor may reduce or eliminate specific line items in the Budget Act or any other appropriations bill without vetoing the entire bill. Such individual line-item vetoes are subject to override by a majority vote of each House of the Legislature.

Appropriations also may be included in legislation other than the Budget Act. Bills containing appropriations (except for K-14 education) must be approved by a two-thirds vote in each House of the Legislature and be signed by the Governor. Bills containing K-14 education appropriations only require a simple majority vote. Continuing appropriations, available without regard to fiscal year, may also be provided by statute or the State Constitution.

Funds necessary to meet an appropriation need not be in the State Treasury at the time such appropriation is enacted; revenues may be appropriated in anticipation of their receipt.

Recent State Budgets. Certain information about the State budgeting process and the State Budget is available through several State of California sources. A convenient source of information is the State's website, where recent official statements for State bonds are posted. The references to internet websites shown below are shown for reference and convenience only, the information contained within the websites may not be current and has not been reviewed by the District and is not incorporated in this Official Statement by reference.

- The California State Treasurer Internet home page at www.treasurer.ca.gov, under the heading "Bond Information", posts various State of California Official Statements, many of which contain a summary of the current State Budget, past State Budgets, and the impact of those budgets on school districts in the State.

- The California State Treasurer's Office Internet home page at www.treasurer.ca.gov, under the heading "Financial Information", posts the State's audited financial statements. In addition, the Financial Information section includes the State's Rule 15c2-12 filings for State bond issues. The Financial Information section also includes the Overview of the State Economy and Government, State Finances, State Indebtedness, Litigation from the State's most current Official Statement, which discusses the State budget and its impact on school districts.

- The California Department of Finance's Internet home page at www.dof.ca.gov, under the heading "California Budget", includes the text of proposed and adopted State Budgets.

- The State Legislative Analyst's Office (the "LAO") prepares analyses of the proposed and adopted State budgets. The analyses are accessible on the Legislative Analyst's Internet home page at www.lao.ca.gov under the heading "Subject Area – Budget (State)".

2010-11 State Budget. Set forth below is a summary of information available with respect to the 2010-11 State Budget.

November 18, 2009 - LAO Report on Fiscal Year 2010-11. On November 18, 2009, the LAO released a report entitled "The 2010-11 Budget: California's Fiscal Outlook," in which it forecast that the State will need to address a general fund budget problem of \$20.7 billion between now and the time the Legislature enacts a fiscal year 2010-11 State budget plan. The budget problem consists of a \$6.3 billion projected deficit for fiscal year 2009-10 and a \$14.4 billion gap between projected revenues and spending in fiscal year 2010-11.

January 8, 2010 – 2010-11 Proposed Budget Submitted by Governor to Legislature. The Governor submitted his 2010-11 budget to the State Legislature. The 2010-11 Proposed Budget acknowledges a projected budget gap of \$19.9 billion, comprised of a 2009-10 shortfall of \$6.6 billion, a 2010-11 budget year shortfall of \$12.3 billion and a modest reserve of \$1 billion. The Governor proposes a combination of spending reductions, alternative funding, fund shifts and additional federal funds to close the \$19.9 billion budget gap. Approximately 40% of the solutions rely on the federal government for funding or flexibility, another 40% rely on reductions in State spending, and the remaining 20% consists of various fund shifts.

With respect to K-12 funding, the 2010-11 budget proposes full funding of the Proposition 98 minimum guarantee, but a reduction of approximately 10% in funding for administration and other non-instruction related spending. The budget includes various flexible

spending propositions, including those with respect to teacher seniority, substitute costs, staffing notification requirements, and reduced school year. Non-Proposition 98 programs funded with State general fund monies are reduced by \$2 million, or 0.2%.

LAO Reports. On January 12, 2010, the LAO commented on the 2010-11 Proposed Budget, stating that the Governor's estimate of a \$18.9 billion budget problem is reasonable but is \$3.1 billion smaller shortfall than the LAO estimates and may be exacerbated by various lawsuits. The LAO also noted that the Governor's plan relies heavily on federal relief, which the State is unlikely to receive in the amounts requested. The Legislature needs to assume that the federal relief will total billions less than the Governor budgets for and will need to make difficult decisions regarding both revenues and spending by the end of March in order to implement them for the next fiscal year.

On February 25, 2010, the LAO released a report commenting on the 2010-11 Proposed Budget's Proposition 98 and K-12 Education proposals. The LAO report stated that the Governor's Proposed Budget would result in reductions in Proposition 98 funding levels from what was currently required by approximately \$2.2 billion in 2009-10 and approximately \$3.2 billion in 2010-11. K-12 revenue limit funding would be cut by \$1.5 billion and virtually all education mandates would be suspended in 2010-11. These reductions were based in part on the Governor's interpretation of "minimum guarantee" as described under "Proposition 98 Funding" above. According to the LAO report, the 2010-11 Proposed Budget took steps in the right direction by reducing costs, providing flexibility and seeking federal funding, but it also missed opportunities for meaningful reform and is based on several assumptions that, if they did not come to pass, would render the plan unworkable.

May 12, 2010 – Governor Submits May Revision to 2010-11 Budget. The Governor submitted a revised 2010-11 Budget which calls for \$12.4 billion in spending cuts to help bridge a \$20 billion deficit over the next fiscal year. The May Revision cuts heavily into State programs, such as CalWORKS, mental health, childcare and some natural resources programs.

LAO Report. On May 18, 2010, the LAO published its comments on the May Revision stating that the Governor's estimate of the budget shortfall was reasonable. However, the LAO Report advised the Legislature to reject the Governor's most drastic spending cuts, particularly the elimination of CalWORKS and child care funding, instituting instead the LAO's alternative spending reduction proposals, and adopting selective revenue increases from fee increases and other non-tax revenues and targeted tax increases. Additionally, the LAO Report urged the Legislature to suspend Proposition 98 if the minimum guarantee was above the level that the state could afford. The LAO predicts that even if the Legislature approved all of the cuts and realized the savings assumed by the Governor's May Revision, a multibillion-dollar operating deficit between \$4 billion and \$7 billion was likely to persist in future years.

July 1, 2010: 2010-11 Fiscal Year Begins. The June 15, 2010 deadline for the State legislature to pass the State Budget bill passed and the 2010-11 Budget Act, which must be approved by a two-thirds majority vote of each House of the Legislature, was not yet approved.

July 28, 2010 – Governor Declares Financial State of Emergency. The Governor declared a financial state of emergency and ordered 150,000 state workers to take furlough three days per month.

On August 23, 2010, in an effort to conserve cash and delay the need to issue IOUs, state officials decided to start delaying school payments of \$2.5 billion a month in September through December. This came after a \$2.5 billion deferral in July.

October 8, 2010 – 2010-11 Budget Adopted. The Legislature passed the \$87.5 billion 2010-11 Budget on the morning of October 8, 2010 and the Governor signed it that night, exercising his line-item veto authority to reduce spending by \$963 million in order to raise the reserve level from \$375 million to \$1.3 billion. Total expenditure reductions are \$8.4 billion. The 2010-11 Budget assumes federal funds of \$5.4 billion and other solutions of almost \$5.5 billion.

The 2010-11 Budget includes:

Pension Reform. The 2010-11 Budget proposes legislation to decrease pension benefits for State employees hired in the future. The pension reform rolls back retirement formulas used to calculate pension payments and includes permanent increases in pension contributions.

Suspension of Education Spending; Deferrals. The Legislature suspended Proposition 98's minimum guaranty to provide \$49.7 billion in spending on K-14 Education in 2010-11. Funds of \$300 million are provided in the 2010-11 Budget to meet the State's outstanding 2009-10 Proposition 98 settle-up obligation. In addition, related budget bills provide K-12 education with \$1.5 billion in special one-time federal funding. The 2010-11 Budget Package defers \$1.9 billion in additional K-14 payments to July 2011.

Cost Reductions in Employee Compensation, Health and Social Services, Criminal Justice. The 2010-11 Budget provides \$1.6 billion in personnel cost reductions through revisions to union agreements, and a "workforce cap" which consists of reductions in hiring and reduced operating costs. Furthermore, \$300 million in reductions are made to the In-Home Supportive Services Program and \$187 million in savings to Medi-Cal. A total of \$1.1 billion in general fund savings within the Department of Corrections is assumed.

Federal Funding Assumptions. The 2010-11 Budget includes assumptions that the federal government will provide funding or approval for certain reductions in State costs or service levels, resulting in a reduction in General Fund costs by \$5.4 billion. About \$1.3 billion has been approved by the Congress and the President. Most of the federal funding assumed in the 2010-11 Budget has yet to be approved by Congress.

Revenue-Related Solutions. The 2010-11 Budget extends for two additional tax years the previously enacted temporary suspension of businesses' ability to use net operating losses to reduce tax liabilities, projected to increase State revenues by \$1.2 billion in 2010-11 and by \$400 million in 2011-12. The budget plan assumes \$1.2 billion in one-time revenue from the sale of 11 State office properties. The Budget plan includes \$2.7 billion of loans, loan repayment extensions, transfers and fund shifts from special funds.

Measure for Budget Reform. The Legislature approved a measure to place a budget reform constitutional amendment before the voters at a future statewide election, intended to increase the State's budgetary reserves and stabilize the State's financial health over time. The measure would double the maximum size of the Budget Stabilization Account and provide more stringent deposit requirements.

November 10, 2010 LAO Report. The LAO forecasted in its November 10, 2010 report that the State's general fund revenues and expenditures showed a budget problem of \$25.4

billion, consisting of a \$6 billion projected deficit for fiscal year 2010-11 and a \$19 billion gap between projected revenues and spending for fiscal year 2011-12. The LAO projected that the State will continue to face annual budget problems of approximately \$20 billion each year through fiscal year 2015-16, and recommended that the Legislature initiate a multi-year approach to solving the State's recurring structural budget deficit, addressing permanent revenue and expenditure actions each year, together with temporary budget solutions, until the structural deficit is eliminated.

November 11, 2010 – Governor Calls Special Session. Governor Schwarzenegger called a special legislative session to commence on December 6, 2010, when new lawmakers were sworn into office in order to address the \$6 billion projected deficit for fiscal year 2010-11. In November, State voters approved a constitutional initiative to lower the legislative threshold to pass the State budget from two-thirds to a simple majority, however, a two-thirds vote is still required to raise taxes and fees. On January 3, 2011, the State's new governor, Jerry Brown, will be sworn into office, and January 10, 2011 is the constitutional deadline for the governor to submit a proposed budget for fiscal year 2011-12.

January 3, 2010 - Governor Brown Sworn In; Warns of Budget Cuts to State Programs. On January 3, 2011, Jerry Brown was sworn into the office of Governor and warned in his inaugural address that his fiscal year 2011-12 budget plan, to be released on January 10th, 2011, will include severe cuts to State spending, which may include cuts to Medi-Cal, prisons and California State University and University of California systems. Additionally, the Governor is expected to call a statewide special election in June 2011 seeking voter approval to extend higher tax rates on income, vehicles and sales, which are currently set to expire in 2011.

Information about State budgets is regularly available at various State-maintained websites. See: www.dof.ca.gov, under the heading "California Budget". Additionally, an impartial analysis of the budget is posted by the Office of the Legislative Analyst at www.lao.ca.gov. The information referred to is prepared by the respective State agency maintaining each website and not by the District, and the District takes no responsibility for the continued accuracy of the internet addresses or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated in this Official Statement by these references.

Uncertainty Regarding Future State Budgets. The District cannot predict what actions will be taken in future years by the State Legislature and the Governor to address the State's current or future budget deficits. Future State budgets will be affected by national and state economic conditions and other factors over which the District has no control. The District cannot predict what impact any future budget proposals will have on the financial condition of the District. To the extent that the State budget process results in reduced revenues to the District, the District will be required to make adjustments to its budgets. However, the obligation to levy *ad valorem* taxes upon all taxable property within the District for the payment of principal of and interest on the Bonds would not be impaired.

The State has not entered into any contractual commitment with the District, the County, the Purchasers or the Owners of the Bonds to provide State budget information to the District or the owners of the Bonds. Although they believe the State sources of information listed above are reliable, the District and the Purchaser assume no responsibility for the accuracy of the State Budget information set forth or referred to herein or incorporated by reference herein.

2010 Legal Challenge to State Funding of Education

The application of Proposition 98 and other statutory regulations has become increasingly difficult to predict accurately in recent years. For a discussion of how the provisions of Proposition 98 have been applied to school funding see "DISTRICT FINANCIAL INFORMATION - State Funding of Education and Recent State Budgets."

On May 20, 2010, a plaintiff class of numerous current California public school students and several school districts, together with the California Congress of Parents, Teachers & Students, the Association of California School Administrators and the California School Boards Association filed suit in Alameda County Superior Court challenging the system of financing for public schools in California as unconstitutional. In *Maya Robles-Wong, et al. v. State of California*, plaintiffs seek declaratory and injunctive relief, including a permanent injunction compelling the State to abandon the existing system of public school finance. The District cannot predict the outcome of the *Robles-Wong* litigation, however, if successful, the lawsuit could result in a change in how school finance is implemented in the State of California.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

Principal of and interest on the Series C Bonds are payable from the proceeds of an *ad valorem* tax levied by the County for the payment thereof. Articles XIII A, XIII B, XIII C, and XIII D of the State Constitution, Propositions 62, 98, 111, 187 and 218, and certain other provisions of law discussed below, are included in this section to describe the potential effect of these Constitutional and statutory measures on the ability of the District to levy taxes and spend tax proceeds for operating and other purposes, and it should not be inferred from the inclusion of such materials that these laws impose any limitation on the ability of the District to levy taxes for payment of the Series C Bonds. The tax levied by the County for payment of the Series C Bonds was approved by the District's voters in compliance with Article XIII A and all applicable laws.

Article XIII A of the California Constitution

Basic Property Tax Levy. On June 6, 1978, California voters approved Proposition 13 ("Proposition 13"), which added Article XIII A to the State Constitution ("Article XIII A"). Article XIII A limits the amount of any *ad valorem* tax on real property to 1% of the full cash value thereof, except that additional *ad valorem* taxes may be levied to pay debt service on (i) indebtedness approved by the voters prior to July 1, 1978, (ii) (as a result of an amendment to Article XIII A approved by State voters on June 3, 1986) on bonded indebtedness for the acquisition or improvement of real property which has been approved on or after July 1, 1978 by two-thirds of the voters on such indebtedness, and (iii) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% of the voters of the district, but only if certain accountability measures are included in the proposition. As described under "THE REFUNDING BONDS – Authority for Issuance", the District received authorization by a requisite 55% of voters to issue the Bonds and has stated that it will comply with all applicable accountability measures required by law. Article XIII A defines full cash value to mean "the county assessor's valuation of real property as shown on the 1975-76 tax bill under full cash value, or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership have occurred after the

1975 assessment". This full cash value may be increased at a rate not to exceed 2% per year to account for inflation.

Article XIII A has subsequently been amended to permit reduction of the "full cash value" base in the event of declining property values caused by damage, destruction or other factors, to provide that there would be no increase in the "full cash value" base in the event of reconstruction of property damaged or destroyed in a disaster and in other minor or technical ways.

Both the United States Supreme Court and the California State Supreme Court have upheld the general validity of Article XIII A.

Legislation Implementing Article XIII A. Legislation has been enacted and amended a number of times since 1978 to implement Article XIII A. Under current law, local agencies are no longer permitted to levy directly any property tax (except to pay voter-approved indebtedness). The 1% property tax is automatically levied by the county and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1979.

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the annual adjustment not to exceed 2% are allocated among the various jurisdictions in the "taxing area" based upon their respective "situs." Any such allocation made to a local agency continues as part of its allocation in future years.

Inflationary Adjustment of Assessed Valuation. As described above, the assessed value of a property may be increased at a rate not to exceed 2% per year to account for inflation. On December 27, 2001, the Orange County Superior Court, in *County of Orange v. Orange County Assessment Appeals Board No. 3*, held that where a home's taxable value did not increase for two years, due to a flat real estate market, the Orange County assessor violated the 2% inflation adjustment provision of Article XIII A, when the assessor tried to "recapture" the tax value of the property by increasing its assessed value by 4% in a single year. The assessors in most California counties, including the County, use a similar methodology in raising the taxable values of property beyond 2% in a single year. The State Board of Equalization has approved this methodology for increasing assessed values. On appeal, the Appellate Court held that the trial court erred in ruling that assessments are always limited to no more than 2% of the previous year's assessment. On May 10, 2004 a petition for review was filed with the California Supreme Court. The petition has been denied by the California Supreme Court. As a result of this litigation, the "recapture" provision described above may continue to be employed in determining the full cash value of property for property tax purposes.

Unitary Property

Some amount of property tax revenue of the District is derived from utility property which is considered part of a utility system with components located in many taxing jurisdictions ("**unitary property**"). Under the State Constitution, such property is assessed by the State Board of Equalization ("**SBE**") as part of a "going concern" rather than as individual pieces of real or personal property. State-assessed unitary and certain other property is allocated to the counties by SBE, taxed at special county-wide rates, and the tax revenues distributed to taxing jurisdictions (including the District) according to statutory formulae generally based on the distribution of taxes in the prior year.

Constitutional Appropriations Limitation

Article XIII B (“**Article XIII B**”) of the State Constitution, as subsequently amended by Propositions 98 and 111, respectively, limits the annual appropriations of the State and of any city, county, school district, authority or other political subdivision of the State to the level of appropriations of the particular governmental entity for the prior fiscal year, as adjusted for changes in the cost of living and in population and for transfers in the financial responsibility for providing services and for certain declared emergencies. For fiscal years beginning on or after July 1, 1990, the appropriations limit of each entity of government shall be the appropriations limit for the 1986-87 fiscal year adjusted for the changes made from that fiscal year under the provisions of Article XIII B, as amended.

The appropriations of an entity of local government subject to Article XIII B limitations include the proceeds of taxes levied by or for that entity and the proceeds of certain state subventions to that entity. “Proceeds of taxes” include, but are not limited to, all tax revenues and the proceeds to the entity from (a) regulatory licenses, user charges and user fees (but only to the extent that these proceeds exceed the reasonable costs in providing the regulation, product or service), and (b) the investment of tax revenues.

Appropriations subject to limitation do not include (a) refunds of taxes, (b) appropriations for debt service, (c) appropriations required to comply with certain mandates of the courts or the federal government, (d) appropriations of certain special districts, (e) appropriations for all qualified capital outlay projects as defined by the legislature, (f) appropriations derived from certain fuel and vehicle taxes and (g) appropriations derived from certain taxes on tobacco products.

Article XIII B includes a requirement that all revenues received by an entity of government other than the State in a fiscal year and in the fiscal year immediately following it in excess of the amount permitted to be appropriated during that fiscal year and the fiscal year immediately following it shall be returned by a revision of tax rates or fee schedules within the next two subsequent fiscal years.

Article XIII B also includes a requirement that 50% of all revenues received by the State in a fiscal year and in the fiscal year immediately following it in excess of the amount permitted to be appropriated during that fiscal year and the fiscal year immediately following it shall be transferred and allocated to the State School Fund under Section 8.5 of Article XVI of the State Constitution.

Article XIII C and Article XIII D of the California Constitution

On November 5, 1996, the voters of the State of California approved Proposition 218, popularly known as the “Right to Vote on Taxes Act.” Proposition 218 added to the California Constitution Articles XIII C and XIII D (respectively, “**Article XIII C**” and “**Article XIII D**”), which contain a number of provisions affecting the ability of local agencies, including school districts, to levy and collect both existing and future taxes, assessments, fees and charges.

According to the “Title and Summary” of Proposition 218 prepared by the California Attorney General, Proposition 218 limits “the authority of local governments to impose taxes and property-related assessments, fees and charges.” Among other things, Article XIII C establishes that every tax is either a “general tax” (imposed for general governmental purposes) or a “special tax” (imposed for specific purposes), prohibits special purpose government agencies such as school districts from levying general taxes, and prohibits any local agency from imposing, extending or increasing any special tax beyond its maximum authorized rate without a

two-thirds vote; and also provides that the initiative power will not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. Article XIIC further provides that no tax may be assessed on property other than *ad valorem* property taxes imposed in accordance with Articles XIII and XIII A of the California Constitution and special taxes approved by a two-thirds vote under Article XIII A, Section 4. Article XIID deals with assessments and property-related fees and charges, and explicitly provides that nothing in Article XIIC or XIID will be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development.

Proposition 218 does not affect the *ad valorem* property taxes to be levied by the County to pay debt service on the Series C Bonds.

Proposition 62

A statutory initiative ("**Proposition 62**") was adopted by the voters at the November 4, 1986, general election which (a) requires that any new or higher taxes for general governmental purposes imposed by local governmental entities such as the District be approved by a two-thirds vote of the governmental entity's legislative body and by a majority vote of the voters of the governmental entity voting in an election on the tax, (b) requires that any special tax (defined as taxes levied for other than general governmental purposes) imposed by a local governmental entity be approved by a two-thirds vote of the voters of the governmental entity voting in an election on the tax, (c) restricts the use of revenues from a special tax to the purposes or for the service for which the special tax was imposed, (d) prohibits the imposition of *ad valorem* taxes on real property by local governmental entities except as permitted by Article XIII A, (e) prohibits the imposition of transaction taxes and sales taxes on the sale of real property by local governmental entities, and (f) requires that any tax imposed by a local governmental entity on or after August 1, 1985, be ratified by a majority vote of the voters voting in an election on the tax within two years of the adoption of the initiative or be terminated by November 15, 1988.

California appellate court cases have overturned the provisions of Proposition 62 pertaining to the imposition of taxes for general government purposes. However, the California Supreme Court upheld Proposition 62 in its decision on August 28, 1995, in *Fresno County Transportation Authority v. Guardino*. This decision reaffirmed the constitutionality of Proposition 62. Certain matters regarding Proposition 62 were not addressed in the Supreme Court's decision, such as what remedies exist for taxpayers subject to a tax not in compliance with Proposition 62, and whether the decision applies to charter cities. The District has not experienced any substantive adverse financial impact as a result of the passage of this initiative.

Proposition 98

On November 8, 1988, California voters approved Proposition 98, a combined initiative constitutional amendment and statute called the "Classroom Instructional Improvement and Accountability Act" ("**Accountability Act**"). Certain provisions of the Accountability Act have, however, been modified by Proposition 111, discussed below, the provisions of which became effective on July 1, 1990. The Accountability Act changes State funding of public education below the university level and the operation of the State's appropriations limit. The Accountability Act guarantees State funding for K-12 school districts and community college districts (hereinafter referred to collectively as "K-14 school districts") at a level equal to the greater of (a) the same percentage of general fund revenues as the percentage appropriated to such districts in 1986-87, and (b) the amount actually appropriated to such districts from the general fund in the previous fiscal year, adjusted for increases in enrollment and changes in the

cost of living. The Accountability Act permits the Legislature to suspend this formula for a one-year period.

The Accountability Act also changes how tax revenues in excess of the State appropriations limit are distributed. Any excess State tax revenues up to a specified amount would, instead of being returned to taxpayers, be transferred to K-14 school districts. Any such transfer to K-14 school districts would be excluded from the appropriations limit for K-14 school districts and the K-14 school district appropriations limit for the next year would automatically be increased by the amount of such transfer. These additional moneys would enter the base funding calculation for K 14 school districts for subsequent years, creating further pressure on other portions of the State budget, particularly if revenues decline in a year following an Article XIII B surplus. The maximum amount of excess tax revenues which could be transferred to K 14 school districts is 4% of the minimum State spending for education mandated by the Accountability Act.

Proposition 111

On June 5, 1990, the voters approved Proposition 111 (Senate Constitutional Amendment No. 1) called the "Traffic Congestion Relief and Spending Limit Act of 1990" ("Proposition 111") which further modified Article XIII B and Sections 8 and 8.5 of Article XVI of the State Constitution with respect to appropriations limitations and school funding priority and allocation.

The most significant provisions of Proposition 111 are summarized as follows:

Annual Adjustments to Spending Limit. The annual adjustments to the Article XIII B spending limit were liberalized to be more closely linked to the rate of economic growth. Instead of being tied to the Consumer Price Index, the "change in the cost of living" is now measured by the change in California *per capita* personal income. The definition of "change in population" specifies that a portion of the State's spending limit is to be adjusted to reflect changes in school attendance.

Treatment of Excess Tax Revenues. "Excess" tax revenues with respect to Article XIII B are now determined based on a two-year cycle, so that the State can avoid having to return to taxpayers excess tax revenues in one year if its appropriations in the next fiscal year are under its limit. In addition, the Proposition 98 provision regarding excess tax revenues was modified. After any two-year period, if there are excess State tax revenues, 50% of the excess are to be transferred to K-14 school districts with the balance returned to taxpayers; under prior law, 100% of excess State tax revenues went to K-14 school districts, but only up to a maximum of 4% of the schools' minimum funding level. Also, reversing prior law, any excess State tax revenues transferred to K-14 school districts are not built into the school districts' base expenditures for calculating their entitlement for State aid in the next year, and the State's appropriations limit is not to be increased by this amount.

Exclusions from Spending Limit. Two exceptions were added to the calculation of appropriations which are subject to the Article XIII B spending limit. First, there are excluded all appropriations for "qualified capital outlay projects" as defined by the Legislature. Second, there are excluded any increases in gasoline taxes above the 1990 level (then nine cents per gallon), sales and use taxes on such increment in gasoline taxes, and increases in receipts from vehicle weight fees above the levels in effect on January 1, 1990. These latter provisions were necessary to make effective the transportation funding package approved by the Legislature and the Governor, which expected to raise over \$15 billion in additional taxes from 1990 through 2000 to fund transportation programs.

Recalculation of Appropriations Limit. The Article XIII B appropriations limit for each unit of government, including the State, is to be recalculated beginning in fiscal year 1990-91. It is based on the actual limit for fiscal year 1986-87, adjusted forward to 1990-91 as if Proposition 111 had been in effect.

School Funding Guarantee. There is a complex adjustment in the formula enacted in Proposition 98 which guarantees K-14 school districts a certain amount of State general fund revenues. Under prior law, K-14 school districts were guaranteed the greater of (1) 40.9% of State general fund revenues (the “first test”) or (2) the amount appropriated in the prior year adjusted for changes in the cost of living (measured as in Article XIII B by reference to *per capita* personal income) and enrollment (the “second test”). Under Proposition 111, schools will receive the greater of (1) the first test, (2) the second test, or (3) a third test, which will replace the second test in any year when growth in *per capita* State general fund revenues from the prior year is less than the annual growth in California *per capita* personal income. Under the third test, schools will receive the amount appropriated in the prior year adjusted for change in enrollment and *per capita* State general fund revenues, plus an additional small adjustment factor. If the third test is used in any year, the difference between the third test and the second test will become a “credit” to schools which will be paid in future years when State general fund revenue growth exceeds personal income growth.

Proposition 1A

On November 2, 2004, California voters approved Proposition 1A, which amends the State constitution to significantly reduce the State's authority over major local government revenue sources. Under Proposition 1A, the State can not (i) reduce local sales tax rates or alter the method of allocating the revenue generated by such taxes, (ii) shift property taxes from local governments to schools or community colleges, (iii) change how property tax revenues are shared among local governments without two-thirds approval of both houses of the State Legislature or (iv) decrease Vehicle License Fee revenues without providing local governments with equal replacement funding. Beginning, in 2008-09, the State may shift to schools and community colleges a limited amount of local government property tax revenue if certain conditions are met, including: (i) a proclamation by the Governor that the shift is needed due to a severe financial hardship of the State, and (ii) approval of the shift by the State Legislature with a two-thirds vote of both houses. Under such a shift, the State must repay local governments for their property tax losses, with interest, within three years. Proposition 1A does allow the State to approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Proposition 1A also amends the State Constitution to require the State to suspend certain State laws creating mandates in any year that the State does not fully reimburse local governments for their costs to comply with the mandates. This provision does not apply to mandates relating to schools or community colleges or to those mandates relating to employee rights.

Proposition 22

On November 2, 2010, California voters approved Proposition 22, a constitutional initiative entitled the “Local Taxpayer, Public Safety, and Transportation Protection Act of 2010.” This initiative amends the State Constitution to prohibit the legislature from diverting or shifting revenues that are dedicated to funding services provided by local government or funds dedicated to transportation improvement projects and services. Under this proposition, the State is not allowed to take revenue derived from locally imposed taxes, such as hotel taxes, parcel taxes, utility taxes and sales taxes, and local public transit and transportation funds. Further, in the event that a local governmental agency sues the State alleging a violation of

these provisions and wins, then the State must automatically appropriate the funds needed to pay that local government.

Application of Constitutional and Statutory Provisions; Recent Lawsuit

The application of Proposition 98 and other statutory regulations has become increasingly difficult to predict accurately in recent years. For a discussion of how the provisions of Proposition 98 have been applied to school funding see "DISTRICT FINANCIAL INFORMATION - State Funding of Education and Recent State Budgets." See also "-2010 Legal Challenge to State Funding of Education" for a description of a pending lawsuit against the State challenging the existing system of public finance.

Future Initiatives

Article XIII A, Article XIII B, Article XIII C and Article XIII D of the California Constitution and Propositions 98, 111 and 22 were each adopted as measures that qualified for the ballot under the State's initiative process. From time to time other initiative measures could be adopted further affecting District revenues or the District's ability to expend revenues. The nature and impact of these measures cannot be anticipated by the District.

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APPENDIX B

**AUDITED FINANCIAL STATEMENTS OF THE DISTRICT
FOR FISCAL YEAR ENDED JUNE 30, 2009**

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**HILLSBOROUGH CITY
SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2009

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HILLSBOROUGH CITY SCHOOL DISTRICT

OF SAN MATEO COUNTY

HILLSBOROUGH, CALIFORNIA

JUNE 30, 2009

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Shawn Christianson	President	2009
Julie Borden	Vice President	2009
Greg Dannis	Clerk	2011
Mary Huser	Member	2011
Mary Ellen Benninger	Member	2009

ADMINISTRATION

Marilyn Loushin-Miller	Superintendent
Elaine Ogawa	Business Manager

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HILLSBOROUGH CITY SCHOOL DISTRICT

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Hillsborough City School District
Hillsborough, California

We have audited the accompanying financial statements of the governmental activities, each major fund, the Hillsborough Recreation aggregate discretely presented component unit and the aggregate remaining fund information of the Hillsborough City School District (the "District") as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. 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; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and Standards and Procedures for Audits of California K-12 Local Educational Agencies 2008-09, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, the Hillsborough Recreation aggregate discretely presented component unit, and the aggregate remaining fund information of the Hillsborough City School District, as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The financial statements of the Hillsborough Schools Foundation discretely presented component unit have not been audited by us and we express no opinion or any other form of assurance on them.

As discussed in the Notes to the basic financial statements, the accompanying financial statements reflect certain changes required as a result of the implementation of GASB Statement No. 45 for the year ended June 30, 2009.

In accordance with Government Auditing Standards, we have also issued our report dated November 30, 2009, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in conjunction with this report in considering the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information listed in the table of contents, including the schedule of expenditures of Federal awards which is required by U.S. Office of Management and Budget Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations, the Combining Statements – Non-Major Governmental Funds is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Vawrinek Time Day + Co. LLP

Palo Alto, California
November 30, 2009

HILLSBOROUGH CITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

This section of the Hillsborough City School District's 2008-09 annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2009. Please read it in conjunction with the District's financial statements, which immediately follow this section.

PROFILE OF THE DISTRICT

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

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

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

As of the October 2008 CBEDS (California Basic Educational Data System) count, the student population was 990 in grades K-5 and 483 in grades 6-8, for a total of 1,473. The students are housed in four schools: North, South, and West Elementary Schools and William H. Crocker Middle School. Approximately 25.3% of the students were Asian, 2.4% were Hispanic, 3.0% were Pacific Islander or Filipino, .4% were African-American, 68.3% were White, and .6% declined to state.

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

Over the years, all Hillsborough Schools have been cited numerous times as California Distinguished Schools; and South, West, and Crocker Schools have received recognition as National Blue Ribbon Schools. Crocker School has been awarded the National Blue Ribbon four times. Crocker School was honored by the White House as one of the best middle schools in the nation in 1983, 1989, 1995, and 2004. Additionally, Crocker School was cited by the Swedish Royal Academy of Engineering Sciences as one of the best schools in the world and received acknowledgment as such at a ceremony in Stockholm. In 2001, West School was the recipient of the "Golden Ruler" Award given by the International Center for Character Education, and the following year was designated as a National School of Character by the national Character Education Partnership. Both teachers and administrators in the school district have been recognized by the county, state, nation and internationally for excellence in education. They have aggressively sought funding for their ideas through a variety of sources including a mini-grant program established by the Hillsborough Schools Foundation, an AB1470 Technology Grant, a California Educational Initiatives Fund Grant, an SB1274 Restructuring Grant, a Goals 2000 Grant, and a grant through the Bay Area Schools Reform Collaborative (BASRC).

The 2009 Accountability Progress Report was just released based on tests taken by students in the spring of 2009. The report measures growth in the Academic Performance Index (API) scores from 2008 to 2009. The API is

HILLSBOROUGH CITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

part of the State of California's accountability system and is calculated by converting a student's performance on statewide assessments across multiple content areas into points on the API scale. These points are then averaged across all students and all tests. The information forming the basis for calculating the API comes from results of the Standardized Testing and Reporting (STAR) Program using the California Standards Tests (CST's) and the California Modified Assessment (CMA). In a scale ranging from a low of 200 to a high of 1000 with a desired State target of 800, all four schools scored well above the target (between 941 and 987). The District's API was 962. The Progress Report also reports on the federal accountability requirements known as Annual Yearly Progress (AYP). To successfully meet AYP, criteria in participation, percent proficient, and API progress must be met. All four schools met the AYP criteria.

On November 5, 2002 Hillsborough voters passed a Proposition 39 measure with a 65.6% majority, well over the required 55%. Measure B is a \$66.8 million school bond to finance renovation and new construction projects on all four school campuses. The District will be modernizing, repairing, equipping and making additions to meet the instructional needs of the students, provide additional educational programs, and meet other needs. These funds will also be used to upgrade fire, life, safety and accessibility standards. The District envisioned a multi-year, multi-phase implementation of this Master Plan.

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

To avoid escalating construction costs over time, the District decided to accelerate the construction timeline of four new buildings, one at each school site, to begin Summer 2008. The District's assessed valuation of secured property was not high enough to sell the remainder of the \$66.8 million bonds to fund this construction. The decision was made to sell 5-year bond anticipation notes (BANs) to go forward with the construction projects and to sell the remaining bond authorization no later than 2013 to pay off the BANs. Although the District must pay interest on the BANs, it is expected that this cost will be less than the growth in escalating construction costs if we waited. The BANs were sold in August 2008 and netted the District \$20,558,960.

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

FINANCIAL HIGHLIGHTS

A school district is Basic Aid when the assessed valuation of the district increases to the point where the local property taxes exceed the State's calculated revenue limit for the district. Hillsborough became Basic Aid in 1990. In 2008-2009, the District received \$4,509,950 in local property taxes over its revenue limit. This money is the primary source for all instructional programs and provides the resources to pay for all operating costs in the General Fund of the District. Because funding relies on assessed valuation, the impact of a recessionary period

HILLSBOROUGH CITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

may have a negative effect upon local property tax revenues. Therefore, we must use caution, and err on the conservative side, in making long-term commitments with our funds.

Being Basic Aid is a desirable status. However, if the State Legislature or the Courts take action that would result in the elimination of Basic Aid, there would be a significant loss of income to our District. The possibility of the State attempting to recapture the Basic Aid excess must never be ignored, especially when the economy is in a downturn and the State is looking for funds.

Another significant source of funding for the District is through the fund raising efforts of the Hillsborough Schools Foundation (HSF). In 2008-2009, the District received \$3.356 million in support of the programs offered to the children of Hillsborough.

The 2009-2010 Adopted Budget assumes a conservative property tax increase of 4%. This growth is reduced by 1.5% for the possible fiscal impact of ongoing property tax revenue adjustments resulting from assessment appeals. Revenue from property taxes is estimated to exceed the District's revenue limit by over \$5.465 million. The State of California, in the midst of an on-going fiscal crisis, will have an unfunded COLA, a larger deficit factor applied to school districts' revenue limit, and further reduction to many of the categorical programs. The District has adopted a conservative budget incorporating known cuts and no growth in Federal funds. Changes will be made at interims to reflect actual numbers as they become known.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

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

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

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

HILLSBOROUGH CITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

Government-wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District one needs to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debt) or to show that it is properly using certain revenues (like federal grants).

The District has two kinds of funds:

- Governmental funds – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information at the bottom of the governmental funds statements that explains the relationship (or differences) between them.
- Fiduciary funds – The District is the trustee, or fiduciary, for assets that belong to others, such as the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

HILLSBOROUGH CITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2009

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets

The District's combined net assets were \$13,056,898 as of June 30, 2009. This was a decrease of 17.7% from the year before. This table summarizes and compares the District's net assets to the prior year.

Hillsborough City School District			
Net Assets			
(in thousands of dollars)			
	Total Government - wide		Total Changes
	2009	2008	
Current and other assets	\$ 18,038.7	\$ 14,964.0	\$ 3,074.7
Capital assets	61,542.1	45,592.7	15,949.4
Total Assets	79,580.8	60,556.7	19,024.1
Current liabilities	4,911.5	4,651.9	259.6
Long-term debt	61,612.4	40,049.1	21,563.3
Total Liabilities	66,523.9	44,701.0	21,822.9
Net Assets			
Invested in capital assets, net of related debt	6,043.9	9,148.4	(3,104.5)
Restricted	4,032.5	3,952.0	80.5
Unrestricted	2,980.5	2,755.3	225.2
Total Net Assets	\$ 13,056.9	\$ 15,855.7	\$ (2,798.8)

HILLSBOROUGH CITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

Changes in Net Assets

The results of this year's operations for the District as a whole are reported in the Statement of Activities. Total expenses surpassed revenues, decreasing net assets \$2,798,786. The table below summarizes and compares the changes in net assets to the prior year.

Hillsborough City School District			
Changes in Net Assets			
(in thousands of dollars)			
	Total Government - wide		Total Changes
	2009	2008	
Revenues			
Program revenues			
Operating grants & contributions	\$ 630.7	\$ 827.6	\$ (196.9)
Capital grants and contributions			-
Property taxes	12,953.7	12,127.4	826.3
Other taxes	3,790.0	3,613.5	176.5
Other general revenues	5,246.6	6,239.8	(993.2)
Total Revenues	22,621.0	22,808.3	(187.3)
Expenses			
Instruction related	18,077.0	16,890.2	1,186.8
Student support services	602.1	668.5	(66.4)
Administration	1,797.1	1,760.2	36.9
Maintenance & operations	1,860.3	1,775.8	84.5
Other	3,083.3	2,296.4	786.9
Total Expenses	25,419.8	23,391.1	2,028.7
Change in Net Assets	\$ (2,798.8)	\$ (582.8)	\$ (2,216.0)

Expenses related to educating and caring for students accounted for 73.0% of total expenses and grew 3.7% over the prior year. Expenditure commitments consumed all revenues received as well as 17.8% of beginning net assets.

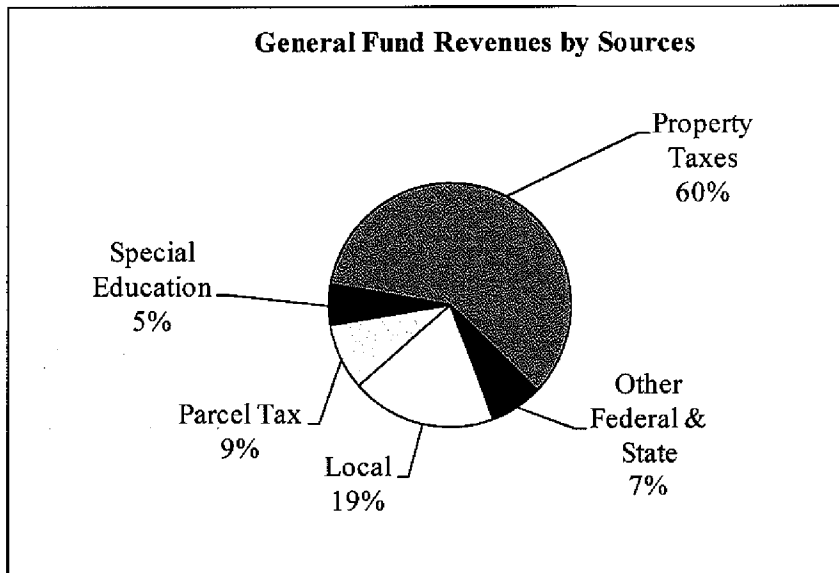
FINANCIAL ANALYSIS OF THE DISTRICT'S GENERAL FUND

The District is Basic Aid, which means that the District relies on local property taxes rather than State aid for revenue. Total revenues for 2008-2009 increased 4.3% over the prior year to \$20,486,217 (not including on behalf payments of \$496,306 by the State to CalSTRS). This increase resulted from an additional \$763 thousand in local property taxes due to increased assessed valuations of property in Hillsborough, \$51 thousand from the parcel tax, \$33 thousand from other local sources, \$110 thousand for special education, \$105 thousand from Federal and State; and a decrease of \$209 thousand in earned interest and loss in investments with Lehman Brothers. Locally generated revenues amounted to 87.6% of the District's total revenues.

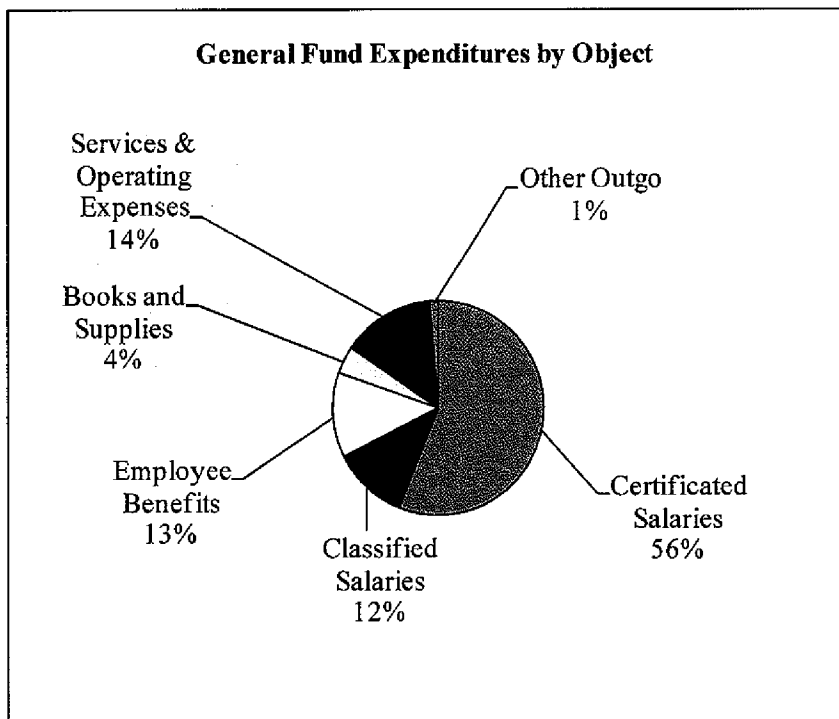
HILLSBOROUGH CITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009



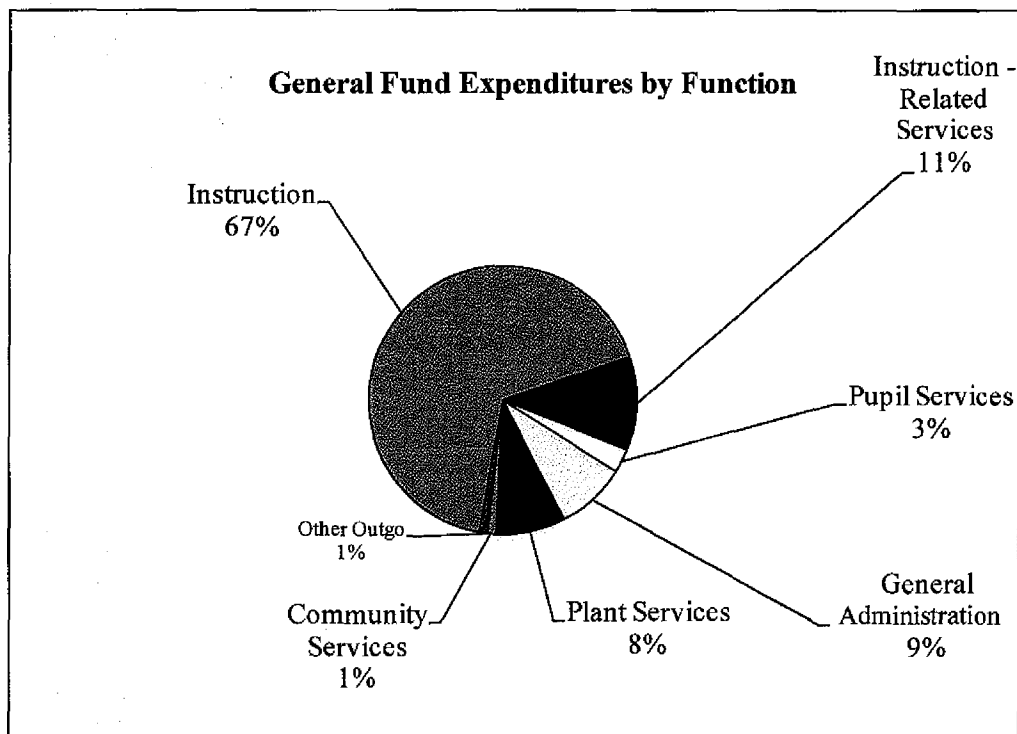
Expenditures increased 2.4% over the previous year. As is common with virtually all school districts, the majority of expenditures in the general fund were for salaries and benefits. Of the \$20,330,243 (not including on behalf payments of \$496,306 by the State to CalSTRS) expended during 2008-2009, 81% was spent on salaries and benefits. See the charts below for a breakdown of general fund expenditures, both by Object Code and by Function.



HILLSBOROUGH CITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009



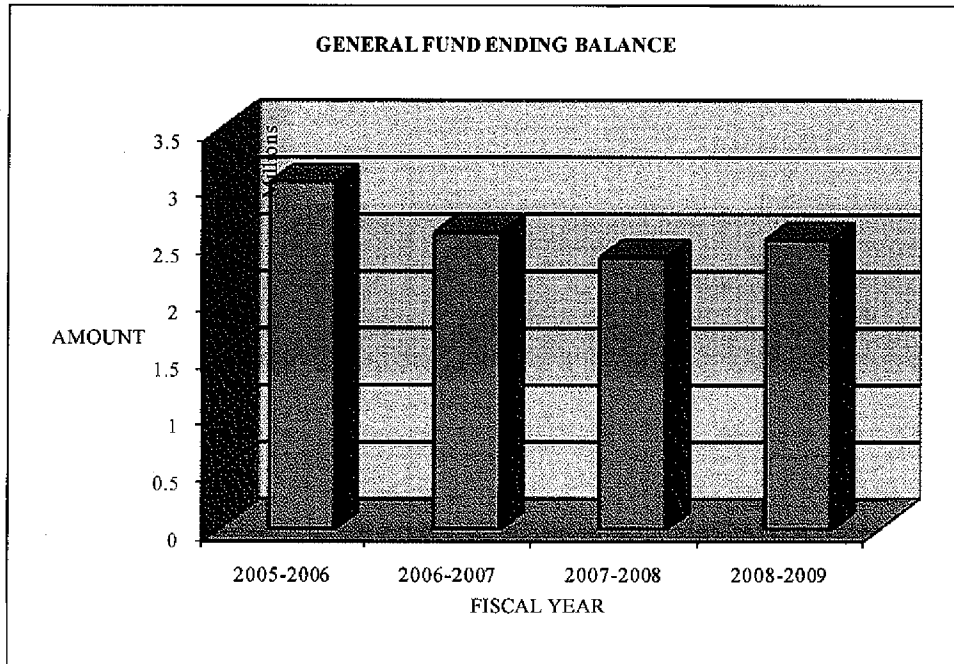
As seen in the chart above, the District spent 78% of total general fund expenditures on instruction and instruction-related activities. Of certificated salaries, the District spent 81% on classroom instruction.

Total revenues of the general fund exceeded expenditures by \$155,973. This surplus contributed to the ending fund balance of the current year of \$2,541,702. Of this amount, \$85,577 was restricted; \$1,401,815 was reserved for designated purposes; and \$1,054,310 was unrestricted and undesignated. The District's undesignated ending balance amounted to 5.2 % of total general fund expenditures and other uses.

HILLSBOROUGH CITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009



General Fund Budgetary Highlights

The adopted budget for the general fund anticipated a reduction in the ending balance of \$282,070. The District ended the year with an actual increase of \$155,973. As a matter of practice, the District intentionally budgets revenues low and expenditures high to insure that all expenses will be covered. Because of the State's fiscal uncertainties and the possible recapture of excess revenues from Basic Aid districts, projections for the adopted budget were based on very conservative assumptions. Growth in revenues are reflected at interims when numbers become known, expenditures are adjusted to account for unplanned expenses that occur as the year progresses, as well as budgeting for any large unforeseen expenses that might arise that are necessary to keep the schools operational.

The adopted budget for 2009-2010 continues to reflect a conservative posture. The District, realizing the need to stop deficit spending, will implement cost cutting measures in 2009-2010 to operate within a balanced budget where revenues equal or exceed expenditures. Revenues are projected to exceed expenditures by \$230,898.

HILLSBOROUGH CITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2009

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Hillsborough City School District Capital Assets at Year-end (in thousands of dollars)			
	Total Government - wide		Total Changes
	2009	2008	
Cost:			
Land	\$ 228.7	\$ 228.7	\$ -
Work in Progress	22,772.9	5,219.0	17,553.9
Improvement of Sites	1,199.7	1,199.7	-
Buildings	45,702.4	45,610.6	91.8
Equipment	1,515.4	1,417.4	98.0
	<u>71,419.1</u>	<u>53,675.4</u>	<u>17,743.7</u>
Accumulated Depreciation:			
Improvement of Sites	681.2	629.1	52.1
Buildings	8,230.7	6,519.9	1,710.8
Equipment	965.1	933.6	31.5
	<u>9,877.0</u>	<u>8,082.6</u>	<u>1,794.4</u>
Net Book Value:			
Land	228.7	228.7	-
Work in Progress	22,772.9	5,219.0	17,553.9
Improvement of Sites	518.5	570.6	(52.1)
Buildings	37,471.7	39,090.7	(1,619.1)
Equipment	550.3	483.8	66.5
	<u>\$ 61,542.1</u>	<u>\$ 45,592.8</u>	<u>\$ 15,949.3</u>

By year end, the District had invested \$71.4 million in a wide range of capital assets, including school buildings, fields, computer equipment and vehicles. The additional \$17.7 million from the current year resulted from the construction of one new building at each of the four school sites. A new four classroom wing at West School was available ahead of schedule and opened in the spring. Scheduled to open at the start of the 2009-2010 school year are new multipurpose rooms at North and South Schools, and a new building at Crocker School to house technology, a lecture hall, and a band room. Completed portions of Work in Progress were reclassified to Buildings. Net book value (the amount of total assets after applying depreciation) increased \$15.9 million or 35% from the prior year.

As the new construction projects are closed out, the District will select other smaller projects to complete with any remaining available bond funds. These projects will occur during Summer 2010.

HILLSBOROUGH CITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2009

Long-Term Debt

Hillsborough City School District Outstanding Long-Term Debt at Year-End (in thousands of dollars)				
	Total Government - wide			
	2009	2008	Total Changes	
Long-Term Debt Outstanding:				
General Obligation Bonds	\$ 39,856.4	\$ 39,791.3	\$	65.1
Bond Anticipation Notes	21,497.0	-		21,497.0
Bond Premium	807.7	850.9		(43.2)
Capitalized Leases	70.4	49.7		20.7
Accumulated Vacation	81.6	80.1		1.5
Sick Leave Bank	32.3	32.2		0.1
Other Postemployment Benefits	160.6	-		160.6
	<u>\$ 62,506.0</u>	<u>\$ 40,804.2</u>	<u>\$</u>	<u>21,701.8</u>

At the close of the year ended June 30, 2009, the District had \$39.9 million in general obligation bonds, \$21.5 million in bond anticipation notes, and other long-term debt outstanding. Current year accretion of the Capital Appreciation Bonds and the Bond Anticipation Notes amounted to \$1,392,424.

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

The District is ever aware of its reliance on local support. Of total revenues, 19% is voluntarily generated (above any assessed taxes) from parents and the community. This revenue source must continue in order to maintain programs as they currently exist.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, please contact the District's Business Office, Hillsborough City School District, 300 El Cerrito Avenue, Hillsborough, CA 94010.

HILLSBOROUGH CITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

JUNE 30, 2009

	Governmental Activities	Hillsborough Schools Foundation	Hillsborough Recreation
ASSETS			
Deposits and investments	\$ 16,886,410	\$ 7,321,244	\$ 1,644,528
Receivables	794,967	139,496	28,782
Prepaid expenses	3,700	2,047	25,378
Deferred charges	353,710	-	-
Capital assets not being depreciated	23,001,562	2,652	-
Capital assets being depreciated	48,417,538	3,488	56,518
Less: Accumulated depreciation	(9,877,044)	-	(9,895)
Total Assets	79,580,843	7,468,927	1,745,311
LIABILITIES			
Accounts payable	1,949,202	3,055,886	61,493
Interest payable	391,380	-	-
Deferred revenue	281,189	-	466,830
Current loans	1,396,215	-	-
Current portion of long-term obligations	893,573	-	-
Noncurrent portion of long-term obligations	61,612,386	-	-
Total Liabilities	66,523,945	3,055,886	528,323
NET ASSETS			
Invested in capital assets, net of related debt	6,043,946	-	46,623
Restricted for:			
Debt service	1,360,972	-	-
Capital projects	1,155,835	-	-
Legally restricted	439,287	-	-
Special revenues	1,076,330	-	-
Other reservations and designations	-	1,491,735	-
Unrestricted	2,980,528	2,921,306	1,170,365
Total Net Assets	\$ 13,056,898	\$ 4,413,041	\$ 1,216,988

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

HILLSBOROUGH CITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2009

		Revenues, Expenses and			
		Program	Changes in Net		
		Revenues	Assets		
		Operating	Hillsborough		
		Grants and	Governmental	School	Hillsborough
Functions/Programs	Expenses	Contributions	Activities	Foundation	Recreation
Governmental Activities:					
Instruction	\$ 15,727,504	\$ 529,737	\$ (15,197,767)	\$ -	\$ -
Instruction-related activities:					
Supervision of instruction	868,219	35,499	(832,720)	-	-
Instructional library, media, and technology	290,475	2,039	(288,436)	-	-
School site administration	1,190,816	207	(1,190,609)	-	-
Pupil services:					
Home-to-school transportation	1,190	17	(1,173)	-	-
Food services	7,657	-	(7,657)	-	-
All other pupil services	593,330	14,009	(579,321)	-	-
General administration:					
Data processing	306,688	5,309	(301,379)	-	-
All other general administration	1,490,403	-	(1,490,403)	425,195	293,421
Plant services	1,860,339	(206)	(1,860,545)	-	-
Community services	280,375	-	(280,375)	-	-
Interest on long-term obligations	2,661,698	-	(2,661,698)	-	-
Other outgo	141,231	44,130	(97,101)	3,030,000	1,234,251
Total Governmental-Type Activities	\$ 25,419,925	\$ 630,741	(24,789,184)	3,455,195	1,527,672
General revenues and subventions:					
Property taxes, levied for general purposes			12,953,739	-	-
Property taxes, levied for debt service			1,983,321	-	-
Taxes levied for other specific purposes			1,806,702	-	-
Federal & State aid not restricted to specific purposes			957,816	-	-
Interest and investment earnings			(164,289)	-	30,776
Miscellaneous			4,453,109	2,737,995	1,542,187
Subtotal, General Revenues			21,990,398	2,737,995	1,572,963
Change in Net Assets			(2,798,786)	(717,200)	45,291
Net Assets - Beginning			15,855,684	5,130,241	1,171,697
Net Assets - Ending			\$ 13,056,898	\$ 4,413,041	\$ 1,216,988

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

HILLSBOROUGH CITY SCHOOL DISTRICT

GOVERNMENTAL FUNDS BALANCE SHEET JUNE 30, 2009

	General Fund	Building Fund	Non Major Governmental Funds	Total Governmental Funds
ASSETS				
Deposits and investments	\$ 4,011,176	\$ 8,120,577	\$ 4,754,657	\$ 16,886,410
Receivables	706,931	59,343	28,693	794,967
Prepaid expenditures	3,700	-	-	3,700
Total Assets	\$ 4,721,807	\$ 8,179,920	\$ 4,783,350	\$ 17,685,077
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 502,701	\$ 1,446,501	\$ -	\$ 1,949,202
Deferred revenue	281,189	-	-	281,189
Current loans	1,396,215	-	-	1,396,215
Total Liabilities	2,180,105	1,446,501	-	3,626,606
Fund Balances:				
Reserved for:				
Legally restricted balances	76,877	-	-	76,877
Other reservations	8,700	-	-	8,700
Unreserved:				
Designated	1,401,815	-	-	1,401,815
Undesignated, reported in:				
General Fund	1,054,310	-	-	1,054,310
Special revenue funds	-	-	1,875,163	1,875,163
Debt service funds	-	-	1,752,352	1,752,352
Capital projects funds	-	6,733,419	1,155,835	7,889,254
Total Fund Balance	2,541,702	6,733,419	4,783,350	14,058,471
Total Liabilities and Fund Balances	\$ 4,721,807	\$ 8,179,920	\$ 4,783,350	\$ 17,685,077

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

HILLSBOROUGH CITY SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS JUNE 30, 2009

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

Total Fund Balance - Governmental Funds	\$ 14,058,471
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Capital assets used in governmental activities are not financial resources, and therefore, are not reported as assets in governmental funds.

The cost of capital assets is	\$ 71,419,100	
Accumulated depreciation is	<u>(9,877,044)</u>	
Net Capital Assets		61,542,056

In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is paid. In the government-wide statements, unmatured interest on long-term obligations is recognized as it accrues.

(391,380)

Costs relating to issuance of debt are expensed in the governmental fund statements, but they are capitalized and amortized to operations in the government-wide statements.

353,710

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

Long-term liabilities at year end consist of:

Bonds payable	(62,161,102)	
Capital leases payable	(70,427)	
Compensated absences (vacations)	(113,852)	
Other post employment benefit obligation	<u>(160,578)</u>	
Total Long-Term Liabilities		<u>(62,505,959)</u>

Total Net Assets - Governmental Activities	\$ 13,056,898
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The accompanying notes are an integral part of these financial statements.

HILLSBOROUGH CITY SCHOOL DISTRICT

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE FOR THE YEAR ENDED JUNE 30, 2009

	General Fund	Building Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Revenue limit sources	\$ 12,944,532	\$ -	\$ -	\$ 12,944,532
Federal sources	413,561	-	-	413,561
Other state sources	1,863,503	-	6,449	1,869,952
Other local sources	5,716,428	(289,906)	1,966,572	7,393,094
Total Revenues	20,938,024	(289,906)	1,973,021	22,621,139
EXPENDITURES				
Current				
Instruction	13,894,575	-	-	13,894,575
Instruction-related activities:				
Supervision of instruction	860,822	-	-	860,822
Instructional library, media and technology	286,292	-	-	286,292
School site administration	1,180,003	-	-	1,180,003
Pupil Services:				
Home-to-school transportation	1,190	-	-	1,190
Food services	-	-	4,091	4,091
All other pupil services	587,861	-	-	587,861
General administration:				
Data processing	306,688	-	-	306,688
All other general administration	1,450,518	-	-	1,450,518
Plant services	1,732,843	-	41,835	1,774,678
Facility acquisition and construction	-	17,839,981	5,123	17,845,104
Community services	212,315	-	-	212,315
Other outgo	141,231	-	-	141,231
Debt service:				
Principal	17,345	2,303	580,000	599,648
Interest and other	51,125	779	1,184,156	1,236,060
Total Expenditures	20,722,808	17,843,063	1,815,205	40,381,076
Excess (Deficiency) of Revenues Over Expenditures	215,216	(18,132,969)	157,816	(17,759,937)
Other Financing Sources (Uses):				
Transfers in	44,500	60,000	123,743	228,243
Other sources	-	20,558,960	-	20,558,960
Transfers out	(103,743)	-	(124,500)	(228,243)
Net Financing Sources (Uses)	(59,243)	20,618,960	(757)	20,558,960
NET CHANGE IN FUND BALANCES	155,973	2,485,991	157,059	2,799,023
Fund Balance - Beginning	2,385,729	4,247,428	4,626,291	11,259,448
Fund Balance - Ending	\$ 2,541,702	\$ 6,733,419	\$ 4,783,350	\$ 14,058,471

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

HILLSBOROUGH CITY SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2009

Amounts Reported for Governmental Activities in the Statement of

Activities are Different Because:

Total Net Change in Fund Balances - Governmental Funds \$ 2,799,023

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

Depreciation expense \$ (1,829,928)

Capital outlays 17,788,043

Net Expense Adjustment 15,958,115

The loss on the disposal of capital assets is recorded in the statement of activities, however in the governmental funds, only gross proceeds are recorded. (8,880)

In the statement of activities, certain operating expenses, such as compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation used was less than the amounts earned by \$20,101. (1,516)

Obligation for capital leases are recorded as revenue in the governmental funds but are considered as an increase to Long-term debt and does not impact the statement of activities. (43,110)

Payment of principal on capital leases is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities. 22,350

Payment of principal on long-term liabilities is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities. 580,000

Accreted interest is not an expenditure in the governmental funds, but it increased long-term liabilities in the statement of net assets and is reflected as additional interest expense in the statement of activities. (1,392,424)

Amortization of the costs of issuance of bonds is an expenditure in the government-wide statements, but is not recorded on the governmental funds. (42,084)

Amortization of bond premiums is recorded as a revenue source in the government-wide statement of activities, but is not recorded on the governmental funds. 43,249

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is paid, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is paid. The additional interest reported in the statement of activities is a result of this difference. 6,029

Proceeds received from sale of bonds, including bond premium is a revenue source in the governmental fund, but it increases long-term liabilities in the statement of net assets and does not affect the statement of activities (20,749,696)

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

HILLSBOROUGH CITY SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2009

Costs associated with the issuance of Bond Anticipation notes are recorded as an expenditures on the governmental funds but are deferred on the statement of net assets and does not impact the statement of activities

190,736

Payments of the retiree benefits are recorded as an expense in the governmental funds. However, the difference between the annual required contributions and the actual benefit payments made, if less, is recorded as an expense in the statement of activities. The actual amount of the contribution was less than the annual required contributions.

(160,578)

Change in Net Assets of Governmental Activities

\$ (2,798,786)

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

HILLSBOROUGH CITY SCHOOL DISTRICT

FIDUCIARY FUNDS STATEMENT OF NET ASSETS JUNE 30, 2009

	Agency Funds
ASSETS	
Deposits and investments	\$ 189,770
Total Assets	<u>\$ 189,770</u>
LIABILITIES	
Due to student groups	\$ 189,770
Total Liabilities	<u>\$ 189,770</u>

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

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Hillsborough City School District was organized on August 14, 1911 under the laws of the State of California. The District operates under a locally elected five-member Board form of government and provides educational services to grades kindergarten through eighth as mandated by the State and/or Federal agencies. The District operates three elementary and one middle school.

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

Component Unit

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

Joint Powers Agencies and Public Entity Risk Pools

The District is associated with one joint powers agency. This organization does not meet the criteria for inclusion as component units of the District. Additional information is presented in Note 14 to the financial statements. The organization is:

- San Mateo County Schools' Insurance Group

Basis of Presentation - Fund Accounting

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

Governmental Funds

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

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

Major Governmental Funds

General Fund - The General Fund is the chief operating fund for all Districts. It is used to account for the ordinary operations of a District. All transactions except those required or permitted by law to be in another fund are accounted for in this fund.

Building Fund - The Building Fund exists primarily to account separately for proceeds from the sale of bonds (*Education Code* Section 15146) and may not be used for any purposes other than those for which the bonds were issued.

Non-Major Governmental Funds

Special Revenue Funds

The Special Revenue Funds are established to account for the proceeds from specific revenue sources (other than trusts or for major capital projects) that are restricted to the financing of particular activities:

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

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

Special Reserve Fund for Other Than Capital Outlay Projects - The Special Reserve for Other Than Capital Outlay Projects is used primarily to provide for the accumulation of General Fund monies for general operating purposes other than for capital outlay (*Education Code* Section 42840).

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

Capital Project Funds

The Capital Project funds are established to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds):

Capital Facilities Fund - The Capital Facilities Fund is used primarily to account separately for monies received from fees levied on developers or other agencies as a condition of approving a development (*Education Code* sections 17620-17626). Expenditures are restricted to the purposes specified in *Government Code* sections 65970-65981 or to the items specified in agreements with the developer (*Government Code* Section 66006).

County School Facilities Fund - The County School Facilities Fund is established pursuant to *Education Code* Section 17070.43 to receive apportionments from the 1998 State School Facilities Fund (Proposition

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

IA), the 2002 State School Facilities Fund (Proposition 47), or the 2004 State School Facilities Fund (Proposition 55) authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (*Education Code* Section 17070 et seq.).

Special Reserve Fund - The Special Reserve Fund is used to account for funds set aside for Board designated construction projects.

Debt Service Funds

The Debt Service funds are established to account for the accumulation of resources for and the payment of principal and interest on long-term obligations.

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

Fiduciary Funds

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

Trust funds are used to account for the assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore, not available to support the District's own programs. The District has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The District's agency fund accounts for student body activities (ASB).

Basis of Accounting - Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the component unit financial statements, but differs from the manner in which governmental fund financial statements are prepared.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, of the District and for each governmental function. Direct expenses are those that are specifically associated with a service, program, or department and are therefore, clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the Statement of Activities, except for depreciation. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws from the general revenues of the District.

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other activities result from special revenue funds and the restrictions on their net asset use.

Fund Financial Statements

Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

Governmental Funds

All governmental funds are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting, and the governmental fund financial statements, prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting.

Fiduciary Funds

Fiduciary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are excluded from the government-wide financial statements because they do not represent resources of the District.

Revenues – Exchange and Non-Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter, to be used to pay liabilities of the current fiscal year. Generally, available is defined as collectible within 90 days. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to state-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, certain grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose restrictions. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

HILLSBOROUGH CITY SCHOOL DISTRICT

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Deferred Revenue

Deferred revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

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

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable and typically paid within 90 days. Principal and interest on long-term obligations, which have not matured, are recognized when paid in the governmental funds as expenditures. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds but are recognized in the government-wide statements.

Cash and Cash Equivalents

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

Investments

Investments held at June 30, 2009, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

Restricted Assets

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

Prepaid Expenditures

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

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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Capital Assets and Depreciation

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

When purchased, such assets are recorded as expenditures in the governmental funds and capitalized in the government-wide statement of net assets. The valuation basis for capital assets is historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are capitalized at estimated fair market value on the date donated.

Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 20 to 50 years; improvements/infrastructure, 5 to 50 years; equipment, 2 to 15 years.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental activities of the statement of net assets.

Compensated Absences

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

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

A sick leave pool for catastrophic illness has been established for certificated and classified employees. To create this pool, a calculation was made to determine the average sick leave used by certificated and classified personnel over a four-year period of time. The maximum amounts to accrue for certificated and classified personnel are not to exceed \$25,000 and \$17,000, respectively.

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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Accrued Liabilities and Long-Term Obligations

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

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

Deferred Issuance Costs, Premiums and Discounts

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

Current Loans

Current loans consist of amounts outstanding at June 30, 2009, for Tax Revenue and Anticipation Notes. The notes were issued as short-term obligations to provide cash flow needs. This liability is offset with cash deposits in the County Treasurer, which have been set aside to repay the notes.

Fund Balance Reserves and Designations

The District reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for revolving cash accounts, prepaid expenditures (expenses), and legally restricted grants and entitlements.

Designations of fund balances consist of that portion of the fund balance that has been designated (set aside) by the governing board to provide for specific purposes or uses. Fund equity designations have been established for economic uncertainties and other purposes.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented in the financial statements. Interfund transfers are eliminated in the governmental and business-type activities columns of the statement of activities, except for the net residual amounts transferred between governmental and business-type activities.

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Budgetary Data

The budgetary process is prescribed by provisions of the California Education Code and requires the governing board to hold a public hearing and adopt an operating budget no later than July 1st of each year. The District governing board satisfied these requirements. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for. For budget purposes, on-behalf payments have not been included as revenue and expenditures as required under generally accepted accounting principles.

Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of San Mateo bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

New Accounting Pronouncements

In July 2004, the GASB issued GASBS No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement will require local governmental employers who provide other postemployment benefits (OPEB) as part of the total compensation offered to employees to recognize the expense and related liabilities (assets) in the government-wide financial statements of net assets and activities. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of State and local governmental employers.

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

This Statement generally provides for prospective implementation - that is, that employers set the beginning net OPEB obligation at zero as of the beginning of the current fiscal year. The District has an annual required contribution of \$223,193 and made a contribution of \$62,615, resulting in an OPEB obligation of \$160,578.

In March 2009, the GASB issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The requirements of this Statement are effective for the financial statements for periods beginning after June 15, 2010. Early implementation is encouraged.

In April 2009, the GASB issued GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to incorporate the hierarchy of generally accepted accounting principles (GAAP) for State and local governments into the GASB authoritative literature. The "GAAP hierarchy" consists of the sources of accounting principles used in the preparation of financial statements of State and local governmental entities that are presented in conformity with GAAP, and the framework for selecting those principles. GASB Statement No. 55 is effective immediately.

In April 2009, the GASB issued GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statements on Auditing Standards. This Statement addresses three issues not included in the authoritative literature that establishes accounting principles - related party transactions, going concern considerations, and subsequent events. The presentation of principles used in the preparation of financial statements is more appropriately included in accounting and financial reporting standards rather than in the auditing literature. GASB Statement No. 56 is effective immediately.

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009

NOTE 2 – DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2009, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 16,886,410
Fiduciary funds	189,770
Total Deposits and Investments	<u>\$ 17,076,180</u>

Deposits and investments as of June 30, 2009, consist of the following:

Cash on hand and in banks	\$ 201,797
Cash in revolving	5,000
Investments	16,869,383
Total Deposits and Investments	<u>\$ 17,076,180</u>

Policies and Practices

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

Investment in County Treasury

The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 41001). The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts based upon the District's pro-rata share of the amortized value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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Investment in the State Investment Pool

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

General Authorizations

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

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

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the county and state investment pools. The fair value of the deposits with the County Treasurer at June 30, 2009, was \$15,458,863 and the weighted average of the pool was 1.2 years. The fair value of the deposits with the state investment pool at June 30, 2009, was \$1,716 and the weighted average of the pool was less than one year. The fair value of the deposit with the California School Cash Reserve Program at June 30, 2009, was \$1,384,752 and the weighted average of the program was less than one year.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investments in the county pool, LAIF or the California School Cash reserve pool are not required to be rated, nor have they been rated as of June 30, 2009.

Custodial Credit Risk - Deposits

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

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009

NOTE 3 - RECEIVABLES

Receivables at June 30, 2009, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Building Fund	Non-Major Governmental Funds	Total
Federal Government				
Categorical aid	\$ 148,863	\$ -	\$ -	\$ 148,863
State Government				
Apportionment	95,125	-	-	95,125
Categorical aid	273,176	-	-	273,176
Lottery	91,251	-	-	91,251
Local Government				
Interest	23,430	53,875	25,825	103,130
Other Local Sources	75,086	5,468	2,868	83,422
Total	<u>\$ 706,931</u>	<u>\$ 59,343</u>	<u>\$ 28,693</u>	<u>\$ 794,967</u>

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2009, was as follows:

	Balance July 1, 2008	Additions	Deductions	Balance June 30, 2009
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 228,711	\$ -	\$ -	\$ 228,711
Construction in Progress	5,219,014	17,744,933	191,096	22,772,851
Total Capital Assets Not Being Depreciated	5,447,725	17,744,933	191,096	23,001,562
Capital Assets Being Depreciated:				
Land Improvements	1,199,735	-	-	1,199,735
Buildings and Improvements	45,610,592	91,762	-	45,702,354
Furniture and Equipment	1,417,413	142,444	44,408	1,515,449
Total Capital Assets Being Depreciated	48,227,740	234,206	44,408	48,417,538
Total Capital Assets	53,675,465	17,979,139	235,504	71,419,100
Less Accumulated Depreciation:				
Land Improvements	629,091	52,061	-	681,152
Buildings and Improvements	6,519,889	1,710,855	-	8,230,744
Furniture and Equipment	933,664	67,012	35,528	965,148
Total Accumulated Depreciation	8,082,644	1,829,928	35,528	9,877,044
Governmental Activities Capital Assets, Net	<u>\$45,592,821</u>	<u>\$16,149,211</u>	<u>\$ 199,976</u>	<u>\$61,542,056</u>

Depreciation expense was charged as a direct expense to governmental and business-type functions as follows:

Governmental Activities	
Instruction	\$ 1,719,126
Instructional library, media, and technology	2,014
Community services	65,953
Food services	3,566
All other general administration	20,727
Plant services	18,542
Total Depreciation Expense	<u>\$ 1,829,928</u>

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009

NOTE 5 – INTERFUND TRANSACTIONS

Operating Transfers

Interfund transfers for the year ended June 30, 2009, consisted of the following:

Transfer To	Transfer From			Total
	General Fund	Building Facilities	Non-Major Governmental Funds	
General Funds	\$ -	\$ -	\$ 103,743	\$ 103,743
Non-Major Governmental Funds	44,500	60,000	20,000	124,500
Total	<u>\$ 44,500</u>	<u>\$ 60,000</u>	<u>\$ 123,743</u>	<u>\$ 228,243</u>

The General Fund transferred to Deferred Maintenance Fund for the matching requirement.	\$ 103,743
The Cafeterial Fund transferred to Special Reserve - Other Fund to reimburse cafeteria equipment purchases to support the lunch program.	20,000
The Capital Facilities Fund transferred to the Building Fund for contribution of construction costs.	60,000
The Special Reserve - Capital Fund transferred to the General Fund to reimburse equipment purchase made by the General Fund.	44,500
Total	<u>\$ 228,243</u>

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2009, consisted of the following:

	General Fund	Building Fund	Total
Vendor payables	\$ 290,058	\$ 1,446,501	\$ 1,736,559
Salaries and benefits	212,643	-	212,643
Total	<u>\$ 502,701</u>	<u>\$ 1,446,501</u>	<u>\$ 1,949,202</u>

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009

NOTE 7 - DEFERRED REVENUE

Deferred revenue at June 30, 2009, consists of the following:

	General Fund
Other local	<u>\$ 281,189</u>

NOTE 8 - TAX AND REVENUE ANTICIPATION NOTES (TRANS)

On July 1, 2008, the District issued \$1,355,000 Tax and Revenue Anticipation Notes bearing interest at 3.223% percent. The notes were issued to supplement cash flows. Interest and principal were due and payable on July 6, 2009. By May 2009, the District had placed 100 percent of principal and interest with a fiscal agent for the sole purpose of satisfying the notes. The District was not required to make any additional payments on the notes. The District has included the cash available to make the principal and interest payments as Cash with Fiscal Agent and the corresponding liability as a current loan.

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2008	Additions	Deductions	Balance June 30, 2009	Due in One Year
General obligation bonds	\$ 39,791,313	\$ 645,103	\$ 580,000	\$ 39,856,416	\$ 715,000
Bond Anticipation Note	-	21,497,017	-	21,497,017	-
Bond Premium	850,918	-	43,249	807,669	43,249
Compensated absences	112,336	1,516	-	113,852	113,852
Capital leases	49,667	43,110	22,350	70,427	21,472
Other Postemployment Benefits	-	223,193	62,615	160,578	-
	<u>\$ 40,804,234</u>	<u>\$ 22,409,939</u>	<u>\$ 708,214</u>	<u>\$ 62,505,959</u>	<u>\$ 893,573</u>

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2008	Addition/ Accretion	Redeemed	Bonds Outstanding June 30, 2009
6/1/03	9/1/27	2%-5%	\$ 13,500,000	\$ 10,660,000	\$ -	\$ 375,000	\$ 10,285,000
8/10/06	9/1/22	4.25%-5%	16,490,000	15,915,000	-	205,000	15,710,000
8/10/06	9/1/31	4.74%-4.88%	12,011,422	13,216,313	645,103	-	13,861,416
6/25/08	9/1/2013	3.6%	20,749,696	-	21,497,017	-	21,497,017
				<u>\$ 39,791,313</u>	<u>\$ 22,142,120</u>	<u>\$ 580,000</u>	<u>\$ 61,353,433</u>

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009

Debt Service Requirements to Maturity

The bonds mature through 2032 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2010	\$ 715,000	\$ 1,162,750	\$ 1,877,750
2011	860,000	1,134,275	1,994,275
2012	1,025,000	1,096,906	2,121,906
2013	21,489,696	5,108,017	26,597,713
2014	830,000	1,031,744	1,861,744
2015-2019	6,815,000	4,436,578	11,251,578
2020-2024	11,765,313	3,616,228	15,381,541
2025-2029	10,521,210	10,377,415	20,898,625
2030-2032	4,734,899	10,315,100	15,049,999
	<u>58,756,118</u>	<u>\$ 38,279,013</u>	<u>\$ 97,035,131</u>
Accretion	2,597,315		
Total	<u>\$ 61,353,433</u>		

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2009, amounted to \$113,852.

Capital Leases

The District has entered into agreements to lease various facilities and equipment. Such agreements are, in substance, purchases (capital leases) and are reported as capital lease obligations. The District's liability on lease agreements with options to purchase is summarized below:

	Crocker Copier	District Office Copier	District Office Copier	North Copier	West Copier	Total
Balance, July 1, 2008	\$ 2,761	\$ 11,484	\$ 8,391	\$ 28,654	\$ 9,247	\$ 60,537
Additions	37,415	-	-	-	-	37,415
Deletions	-	3,938	2,797	7,017	3,082	16,834
Balance, July 1, 2009	<u>\$ 40,176</u>	<u>\$ 7,546</u>	<u>\$ 5,594</u>	<u>\$ 21,637</u>	<u>\$ 6,165</u>	<u>\$ 81,118</u>

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2010	\$ 26,878
2011	26,550
2012	17,061
2013	10,629
Total	81,118
Less: Amount Representing Interest	10,691
Present Value of Minimum Lease Payments	<u>\$ 70,427</u>

Other Postemployment Benefit (OPEB) Obligation

The District implemented GASBS No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* during the year ended June 30, 2009. The District's annual required contribution for the year ended June 30, 2009, was \$ 223,193 and contributions made by the District during the year were \$62,615, which resulted in a net OPEB obligation of \$160,578. See Note 11 for additional information regarding the OPEB Obligation and the postemployment benefit plan.

NOTE 10 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Building Fund	Non-Major Governmental Funds	Total
Reserved				
Revolving cash	\$ 5,000	\$ -	\$ -	\$ 5,000
Prepaid expenditures	3,700	-	-	3,700
Restricted programs	76,877	-	-	76,877
Total Reserved	<u>85,577</u>	<u>-</u>	<u>-</u>	<u>85,577</u>
Unreserved				
Designated				
Economic uncertainties	1,219,815	-	-	1,219,815
Other designation	182,000	-	-	182,000
Total Designated	<u>1,401,815</u>	<u>-</u>	<u>-</u>	<u>1,401,815</u>
Undesignated	<u>1,054,310</u>	<u>6,733,419</u>	<u>4,783,350</u>	<u>12,571,079</u>
Total Unreserved	<u>2,456,125</u>	<u>6,733,419</u>	<u>4,783,350</u>	<u>13,972,894</u>
Total	<u>\$ 2,541,702</u>	<u>\$ 6,733,419</u>	<u>\$ 4,783,350</u>	<u>\$ 14,058,471</u>

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

NOTE 11 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

Plan Description

The Postemployment Benefit Plan (the "Plan") is a single-employer defined benefit healthcare plan administered by the Hillsborough City School District. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of 148 active plan members and 32 retirees and beneficiaries currently receiving benefits.

Contribution Information

The contribution requirements of plan members and the District are established and may be amended by the District and the Hillsborough Teachers Association (HTA), the local California Service Employees Association (CSEA), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2008-09, the District contributed \$62,615 to the plan, all of which was used for current premiums.

Annual OPEB Cost and Net OPEB Obligation

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

Annual required contribution	\$ 223,193
Interest on net OPEB obligation	-
Annual OPEB cost (expense)	<u>223,193</u>
Contributions made	<u>(62,615)</u>
Increase in net OPEB obligation	160,578
Net OPEB obligation, beginning of year	-
Net OPEB obligation, end of year	<u>\$ 160,578</u>

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2009 was as follows:

Year Ended June 30,	Annual Required Contribution	Percentage Contributed	Net OPEB Obligation
<u>2009</u>	\$ 223,193	28%	\$ 160,578

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

Funded Status and Funding Progress

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

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the September 1, 2007, actuarial valuation, the "entry age normal" actuarial cost method was used. The actuarial assumptions included a 1% medical trend rate.

NOTE 12 - 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. During fiscal year ending June 30, 2009, the District contracted with San Mateo County Schools' Insurance Group (SMCSIG) for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2009, the District contracted with San Mateo County Schools' Insurance Group (SMCSIG) for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

Workers' Compensation

For fiscal year 2009, the District participated in the SMCSIG, an insurance purchasing pool. The intent of the SMCSIG is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the SMCSIG. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in the SMCSIG. Each participant pays its workers' compensation premium based on its individual rate. A participant will then either receive money from or be required to contribute to the "equity-pooling fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the SMCSIG. Participation in the SMCSIG is limited to districts that can meet the SMCSIG selection criteria.

Insurance Program Company Name	Type of Coverage	Limits
<u>Workers' Compensation Program</u>		
San Mateo County Schools Insurance Group	Workers' Compensation	\$ 1,000,000 or to statutory limit
<u>Property and Liability Program</u>		
School Excess Liability Fund (SELF)	2nd Excess Liability	\$ 25,000,000
CSAC Excess Insurance Authority (CSAC-EIA)	1st Excess Liability	\$ 5,000,000
San Mateo County Schools Insurance Group	General Liability	\$ 250,000
Public Entity Property Insurance Program (PEPIP)	Property	\$ 1,000,000,000
San Mateo County Schools Insurance Group	Property	\$ 250,000

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

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

CalSTRS

Plan Description

The District contributes to the California State Teachers' Retirement System (CalSTRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits, annual cost-of-living adjustments and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7919 Folsom Blvd., Sacramento, CA 95826.

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009

Funding Policy

Active plan members are required to contribute 8.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2008-2009 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the fiscal years ending June 30, 2009, 2008, and 2007, were \$906,479, \$881,482, and \$874,293, respectively, and equal 100 percent of the required contributions for each year.

CalPERS

Plan Description

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

Funding Policy

Active plan members are required to contribute 7.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2008-2009 was 9.428 percent of covered payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2009, 2008, and 2007, were \$215,164, \$212,880, and \$263,985, respectively, and equal 100 percent of the required contributions for each year.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS for 4.517 percent of annual payroll. The CalSTRS contribution to the District for the fiscal years ending June 30, 2009, 2008, and 2007, were \$496,306, \$482,624 and \$478,708. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budget amounts reported in the General Fund Budgetary Comparison Schedule.

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2009.

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2009.

Construction Commitments

As of June 30, 2009, the District had the following commitments with respect to the unfinished capital projects:

<u>Capital Project</u>	<u>Remaining Construction Commitment</u>
North Elementary	
North Conversion Projects	\$ 5,605
MPR	1,056,609
South Elementary	
MPR	1,128,298
West Elementary	
West Conversion Projects	7,737
New Classrooms	415,784
Crocker Middle	
Technology/Lecture Hall/Band Room	1,409,085
Program	603,895
	<u>\$ 4,627,013</u>

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

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

The District is a member of the San Mateo County Schools' Insurance Group ("SMCSIG") joint powers authority (JPA). The District pays an annual premium to the applicable entity for its workers' compensation, property and liability coverage. The relationship between the District and the JPA is such that it is not a component unit of the District for financial reporting purposes.

The entity has budgeting and financial reporting requirements independent of member units and its financial statements are not presented in these financial statements; however, fund transactions between the entity and the District are included in these statements. Audited financial statements are generally available from the respective entities.

The District has appointed one board member to the governing board of SMCSIG. During the year ended June 30, 2009, the District made payments of \$384,074 to SMCSIG.

NOTE 16 - SUBSEQUENT EVENTS

The District issued \$2,710,000 of Tax and Revenue Anticipation Notes dated July 6, 2009. The notes mature on July 1, 2010, and yield 0.594 percent interest. The notes were sold to supplement cash flow. Repayment requirements are that a percentage of principal and interest be deposited with the Fiscal Agent each month beginning February 2010, until 100 percent of principal and interest due is on account in May 2010.

REQUIRED SUPPLEMENTARY INFORMATION

HILLSBOROUGH CITY SCHOOL DISTRICT

GENERAL FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2009

	Budgeted Amounts (GAAP Basis)		Actual (GAAP Basis)	Variances - Favorable (Unfavorable)
	Original	Final		Final to Actual
REVENUES				
Revenue limit sources	\$ 12,679,493	\$ 12,744,245	\$ 12,944,532	\$ 200,287
Federal sources	292,997	294,629	413,561	118,932
Other state sources	1,234,830	1,353,497	1,367,194	13,697
Other local sources	5,688,759	5,636,928	5,716,428	79,500
Total Revenues ¹	19,896,079	20,029,299	20,441,715	412,416
EXPENDITURES				
Current				
Instruction	13,376,612	13,721,087	13,398,266	322,821
Instruction-related activities:				
Supervision of instruction	893,741	908,821	860,822	47,999
Instructional library, media, and technology	295,773	292,775	286,292	6,483
School site administration	1,210,871	1,193,797	1,180,003	13,794
Pupil services:				-
Home-to-school transportation	20,000	24,000	1,190	22,810
All other pupil services	530,789	568,576	587,861	(19,285)
General administration:				-
Data processing	273,786	311,500	306,688	4,812
All other general administration	1,409,107	1,530,743	1,450,518	80,225
Plant services	1,802,471	1,800,625	1,732,843	67,782
Community services	213,784	212,315	212,315	-
Other outgo	120,000	157,000	141,231	15,769
Debt service				-
Principal	48,949	48,949	17,345	31,604
Interest	47,400	47,400	51,125	(3,725)
Total Expenditures ¹	20,243,283	20,817,588	20,226,499	591,089
Excess (Deficiency) of Revenues	(347,204)	(788,289)	215,216	1,003,505
Other Financing Sources (Uses):				
Transfers in	119,634	44,500	44,500	-
Transfers out	(54,500)	(103,743)	(103,743)	-
Net Financing Sources (Uses)	65,134	(59,243)	(59,243)	-
NET CHANGE IN FUND BALANCES	(282,070)	(847,532)	155,973	1,003,505
Fund Balance - Beginning	2,385,729	2,385,729	2,385,729	-
Fund Balance - Ending	\$ 2,103,659	\$ 1,538,197	\$ 2,541,702	\$ 1,003,505

¹ On behalf payments of \$496,306 are not included in the actual revenues and expenditures.

HILLSBOROUGH CITY SCHOOL DISTRICT

SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING PROGRESS AND EMPLOYER CONTRIBUTION FOR THE YEAR ENDED JUNE 30, 2009

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
9/1/2007	\$ -	\$ 2,407,434	\$2,407,434	\$ -	\$13,767,918	17.49%

SUPPLEMENTARY INFORMATION

HILLSBOROUGH CITY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2009

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
Title IV - Drug Free Schools	84.186	14347	\$ 2,495
Title II - Teacher Quality	84.367	14341	28,048
Title II - Enhancing Education Through Technology	84.318	14334	378
Title V - Innovative Strategies	84.298A	14354	1,147
Special Education - State Grants			
Local Assistance	84.027	13379	235,698
ARRA Local Assistance	84.391	15003	42,763
Preschool Grants, Part B	84.173	13430	10,103
Low Incidence Entitlement, Part B	84.027A	13682	17,213
Preschool Staff Development	84.173A	13431	121
Total Expenditures of Federal Awards ¹			<u>\$ 337,966</u>

¹ There is \$75,595 unspent State Fiscal Stabilization Fund (ARRA) excluded from this schedule

HILLSBOROUGH CITY SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE FOR THE YEAR ENDED JUNE 30, 2009

ORGANIZATION

The Hillsborough City School District was established August 14, 1911 and consists of an area comprising approximately 6.3 square miles. The District operates 3 elementary schools, and 1 middle school. There were no boundary changes during the year.

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Shawn Christianson	President	2009
Julie Borden	Vice President	2009
Greg Dannis	Clerk	2011
Mary Huser	Member	2011
Mary Ellen Benninger	Member	2009

ADMINISTRATION

Marilyn Loushin-Miller	Superintendent
Elaine Ogawa	Business Manager

See accompanying note to supplementary information.

HILLSBOROUGH CITY SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE FOR THE YEAR ENDED JUNE 30, 2009

	Second Period Report	Annual Report
ELEMENTARY		
Kindergarten	147	147
First through third	489	489
Fourth through sixth	469	468
Seventh and eighth	308	308
Special education	15	15
Total Elementary	<u>1,428</u>	<u>1,427</u>
		Hours of Attendance
SUPPLEMENTAL INSTRUCTIONAL HOURS		
Core instruction		<u>7,527</u>
Total Hours		<u>7,527</u>

See accompanying note to supplementary information.

HILLSBOROUGH CITY SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME FOR THE YEAR ENDED JUNE 30, 2009

Grade Level	1982-83	1986-87	2008-2009	Number of Days		Status
	Actual Minutes	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Kindergarten	32,400	36,000	41,630	181	NA	Complied
Grades 1-3		50,400				
Grade 1	45,600		52,270	181	NA	Complied
Grade 2	45,600		52,270	181	NA	Complied
Grade 3	45,600		54,320	181	NA	Complied
Grades 4-6		54,000				
Grade 4	54,000		56,315	181	NA	Complied
Grade 5	54,000		56,315	181	NA	Complied
Grade 6	57,780		62,245	181	NA	Complied
Grades 7-8		54,000				
Grade 7	57,780		62,245	181	NA	Complied
Grade 8	57,780		62,245	181	NA	Complied

See accompanying note to supplementary information.

HILLSBOROUGH CITY SCHOOL DISTRICT

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009

There were no adjustments to Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2009.

See accompanying note to supplementary information.

HILLSBOROUGH CITY SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2009

	(Budget) 2010 ¹	2009	2008	2007
GENERAL FUND				
Revenues	\$20,258,981	\$20,938,024	\$20,110,859	\$19,439,727
Other sources and transfers in	44,500	44,500	31,370	-
Total Revenues and Other Sources	20,303,481	20,982,524	20,142,229	19,439,727
Expenditures	20,072,583	20,722,808	20,360,501	19,826,239
Other uses and transfers out	-	103,743	-	56,000
Total Expenditures and Other Uses	20,072,583	20,826,551	20,360,501	19,882,239
INCREASE (DECREASE) IN FUND BALANCE	<u>\$ 230,898</u>	<u>\$ 155,973</u>	<u>\$ (218,272)</u>	<u>\$ (442,512)</u>
ENDING FUND BALANCE	<u>\$ 2,772,600</u>	<u>\$ 2,541,702</u>	<u>\$ 2,385,729</u>	<u>\$ 2,604,001</u>
AVAILABLE RESERVES ^{2,3}	<u>\$ 3,616,434</u>	<u>\$ 3,072,958</u>	<u>\$ 2,685,631</u>	<u>\$ 2,829,842</u>
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	<u>18.02%</u>	<u>15.12%</u>	<u>13.51%</u>	<u>14.60%</u>
LONG-TERM DEBT	<u>\$60,910,000</u>	<u>\$62,505,959</u>	<u>\$40,804,234</u>	<u>\$40,192,589</u>
K-12 AVERAGE DAILY ATTENDANCE AT P-2	<u>1,431</u>	<u>1,411</u>	<u>1,405</u>	<u>1,391</u>

The General Fund balance has decreased by \$62,299 over the past two years. The fiscal year 2009-2010 budget projects an increase of \$230,898 (9.08 percent). For a district this size, the State recommends available reserves of at least 3 percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating deficits in all of the past three years and anticipates incurring an operating surplus during the 2009-2010 fiscal year. Total long-term obligations have increased by \$22,313,370 over the past two years, due to the issuance of general obligation bonds during the 2008-2009 fiscal year.

Average daily attendance has increased by 20 over the past two years. Additional growth of 20 ADA is anticipated during fiscal year 2009-2010.

¹ Budget 2010 is included for analytical purposes only and has not been subjected to audit.

² Available reserves consist of all undesignated fund balances and all funds designated for economic uncertainty contained within the General Fund and the Special Reserve Fund (other than capital outlay).

³ On-behalf payments of \$496,306, \$482,624, and \$478,708 have been excluded from the calculation of the available reserves percentage for fiscal years ending June 30, 2009, 2008, and 2007, respectively.

See accompanying note to supplementary information.

HILLSBOROUGH CITY SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS COMBINING BALANCE SHEET JUNE 30, 2009

	Cafeteria Fund	Deferred Maintenance Fund	Special Reserve Non-Capital Fund	Foundation Fund
ASSETS				
Deposits and investments	\$ 1,948	\$ 76,180	\$ 794,354	\$ 989,400
Receivables	2,925	208	4,479	5,669
Total Assets	\$ 4,873	\$ 76,388	\$ 798,833	\$ 995,069
Fund Balances:				
Unreserved:				
Undesignated, reported in:				
Special revenue funds	\$ 4,873	\$ 76,388	\$ 798,833	\$ 995,069
Debt service funds	-	-	-	-
Capital projects funds	-	-	-	-
Total Fund Balance	4,873	76,388	798,833	995,069
Total Liabilities and Fund Balances	\$ 4,873	\$ 76,388	\$ 798,833	\$ 995,069

See accompanying note to supplementary information.

Capital Facilities Fund	County School Facilities Fund	Special Reserve Capital Outlay Fund	Bond Interest and Redemption Fund	Total Non Major Governmental Funds
\$ 10,419	\$ 176	\$ 1,138,368	\$ 1,743,812	\$ 4,754,657
233	-	6,639	8,540	28,693
<u>\$ 10,652</u>	<u>\$ 176</u>	<u>\$ 1,145,007</u>	<u>\$ 1,752,352</u>	<u>\$ 4,783,350</u>
\$ -	\$ -	\$ -	-	\$ 1,875,163
-	-	-	1,752,352	1,752,352
10,652	176	1,145,007	-	1,155,835
<u>10,652</u>	<u>176</u>	<u>1,145,007</u>	<u>1,752,352</u>	<u>4,783,350</u>
<u>\$ 10,652</u>	<u>\$ 176</u>	<u>\$ 1,145,007</u>	<u>\$ 1,752,352</u>	<u>\$ 4,783,350</u>

HILLSBOROUGH CITY SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE FOR THE YEAR ENDED JUNE 30, 2009

	Cafeteria Fund	Deferred Maintenance Fund	Special Reserve Non-Capital Fund	Foundation Fund
REVENUES				
Other State sources	\$ -	\$ -	\$ -	\$ -
Other local sources	19,303	(29)	(25,936)	(33,192)
Total Revenues	<u>19,303</u>	<u>(29)</u>	<u>(25,936)</u>	<u>(33,192)</u>
EXPENDITURES				
Food services	4,091	-	-	-
Plant services	-	34,442	-	-
Facility acquisition and construction	-	5,123	-	-
Debt service				
Principal	-	-	-	-
Interest and other	-	-	-	-
Total Expenditures	<u>4,091</u>	<u>39,565</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of				
Revenues Over Expenditures	<u>15,212</u>	<u>(39,594)</u>	<u>(25,936)</u>	<u>(33,192)</u>
Other Financing Sources (Uses):				
Transfers in	-	103,743	20,000	-
Transfers out	(20,000)	-	-	-
Net Financing Sources				
(Uses)	<u>(20,000)</u>	<u>103,743</u>	<u>20,000</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>(4,788)</u>	<u>64,149</u>	<u>(5,936)</u>	<u>(33,192)</u>
Fund Balance - Beginning	<u>9,661</u>	<u>12,239</u>	<u>804,769</u>	<u>1,028,261</u>
Fund Balance - Ending	<u>\$ 4,873</u>	<u>\$ 76,388</u>	<u>\$ 798,833</u>	<u>\$ 995,069</u>

See accompanying note to supplementary information.

Capital Facilities Fund	County School Facilities Fund	Special Reserve Capital Fund	Bond Interest and Redemption Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ 6,449	\$ 6,449
36,687	(6)	33,490	1,936,255	1,966,572
36,687	(6)	33,490	1,942,704	1,973,021
-	-	-	-	4,091
7,393	-	-	-	41,835
-	-	-	-	5,123
-	-	-	580,000	580,000
-	-	-	1,184,156	1,184,156
7,393	-	-	1,764,156	1,815,205
29,294	(6)	33,490	178,548	157,816
-	-	-	-	123,743
(60,000)	-	(44,500)	-	(124,500)
(60,000)	-	(44,500)	-	(757)
(30,706)	(6)	(11,010)	178,548	157,059
41,358	182	1,156,017	1,573,804	4,626,291
\$ 10,652	\$ 176	\$ 1,145,007	\$ 1,752,352	\$ 4,783,350

HILLSBOROUGH CITY SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2009

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

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

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of Education Code Sections 46200 through 46206.

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

Schedule of Financial Trends and Analysis

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

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

The Non-Major Governmental Funds Combining Balance Sheet and Combining Statement of Revenues, Expenditures and Changes in Fund Balance is included to provide information regarding the individual funds that have been included in the Non-Major Governmental Funds column on the Governmental Funds Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance.

INDEPENDENT AUDITOR'S REPORTS

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

Board of Trustees
Hillsborough City School District
Hillsborough, California

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Hillsborough City School District as of and for the year ended June 30, 2009, which collectively comprise Hillsborough City School District's basic financial statements and have issued our report thereon dated November 30, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hillsborough City School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hillsborough City School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hillsborough City School District's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of the governing board, management, the California Department of Education, the State Controller's Office, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Vawrinek Time Day + Co. LLP

Palo Alto, California
November 30, 2009



INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Trustees
Hillsborough City School District
Hillsborough, California

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Hillsborough City School District as of and for the year ended June 30, 2009, and have issued our report thereon dated November 30, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2008-09*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Compliance with the requirements of laws, regulations, contracts, and grants listed below is the responsibility of Hillsborough City School District's management. In connection with the audit referred to above, we selected and tested transactions and records to determine the Hillsborough City School District's compliance with the State laws and regulations applicable to the following items:

	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance reporting	8	Yes
Independent study	23	Not Applicable
Continuation education	10	Not Applicable
Adult education	9	Not Applicable ¹
Regional occupational centers and programs	6	Not Applicable ¹
Instructional Time:		
School districts	6	Yes
County offices of education	3	Not Applicable
Community day schools	9	Not Applicable
Morgan-Hart Class Size Reduction	7	Not Applicable ¹
Instructional Materials:		
General requirements	12	1 ²
K-8 only	1	Not Applicable ¹
9-12 only	1	Not Applicable ¹
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes

	Procedures in Audit Guide	Procedures Performed
Early retirement incentive	4	Not Applicable
Gann limit calculation	1	Yes
School Accountability Report Card	3	Yes
Mathematics and Reading Professional Development	4	Not Applicable ¹
Class Size Reduction Program (including in Charter Schools):		
General requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	Not Applicable
District or charter schools with only one school serving K-3	4	Not Applicable
After School Education and Safety Program		
General requirements	4	Not Applicable
After school	4	Not Applicable
Before school	5	Not Applicable
Charter Schools:		
Contemporaneous records of attendance	1	Not Applicable
Mode of instruction	1	Not Applicable
Non classroom-based instruction/independent study	15	Not Applicable
Determination of funding for non classroom-based instruction	3	Not Applicable
Annual instruction minutes classroom based	3	Not Applicable

¹ This program is not required to be audited per flexibility provisions in SBX3 4.

² The number of procedures to be performed was reduced per flexibility provisions in SBX3 4. Section 19828.3 procedures (b), (c), and (e) were not performed.

Based on our audit, we found that for the items tested, the Hillsborough City School District complied with the State laws and regulations referred to above. Further, based on our audit, for items not tested, nothing came to our attention to indicate that the Hillsborough City School District had not complied with the laws and regulations. Our audit does not provide a legal determination on Hillsborough City School District's compliance with the State laws and regulations referred to above.

This report is intended solely for the information and use of the governing board, management, the California Department of Education, the State Controller's Office, the California Department of Finance, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Varinek Time Day + Co. LLP

Palo Alto, California
November 30, 2009

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

HILLSBOROUGH CITY SCHOOL DISTRICT

SUMMARY OF AUDITORS' RESULTS FOR THE YEAR ENDED JUNE 30, 2009

FINANCIAL STATEMENTS

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

Material weaknesses identified?

No

Reporting conditions identified not considered to be material weaknesses?

None reported

Noncompliance material to financial statements noted?

No

STATE AWARDS

Internal control over State programs:

Material weaknesses identified?

No

Reporting conditions identified not considered to be material weaknesses?

None reported

Type of auditors' report issued on compliance for State programs:

Unqualified

HILLSBOROUGH CITY SCHOOL DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2009**

None reported.

HILLSBOROUGH CITY SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009**

None reported.

HILLSBOROUGH CITY SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2009**

None reported.

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APPENDIX C

GENERAL INFORMATION ABOUT THE TOWN OF HILLSBOROUGH AND THE COUNTY OF SAN MATEO

The following information concerning the Town of Hillsborough and the County of San Mateo is included only for the purpose of supplying general information regarding the area of the District. The Series C Bonds are not a debt of the Town, the County, the State or any of its political subdivisions, and neither the County, the State nor any of its political subdivisions is liable therefor.

Location

The Town of Hillsborough (the “**Town**”) is located in San Mateo County (the “**County**”) approximately 20 miles south of the City of San Francisco between Palo Alto and San Francisco. The Town is located near to several employment bases and is accessible to the San Jose and Silicon Valley areas approximately 30 miles south via Interstate 280 or U.S. Highway 101.

Population

The following sets forth the City and the County population estimates as of January 1 for the years 2006 to 2010:

TOWN OF HILLSBOROUGH AND COUNTY OF SAN MATEO Population As of January 1

<u>Year</u>	<u>Town of Hillsborough</u>	<u>County of San Mateo</u>
2006	10,948	722,683
2007	11,039	727,719
2008	11,230	736,494
2009	11,390	745,654
2010	11,537	754,285

Source: California State Department of Finance, Demographic Research Unit.

Employment and Industry

The Town is included in the San Francisco Metropolitan Statistical Area, which includes all of the County as well as Marin and San Francisco Counties. The following table summarizes the civilian labor force, employment and unemployment in the County for the calendar years 2005 through 2009. These figures are county-wide statistics and may not necessarily accurately reflect employment trends in the Town.

SAN FRANCISCO METROPOLITAN STATISTICAL AREA (SAN MATEO COUNTY) Civilian Labor Force, Employment and Unemployment (Annual Averages)

	2005	2006	2007	2008	2009
Civilian Labor Force ⁽¹⁾	904,400	915,600	939,600	967,400	966,100
Employment	863,200	880,000	902,300	919,200	882,300
Unemployment	41,200	35,600	37,300	48,200	83,800
Unemployment Rate	4.6%	3.9%	4.0%	5.0%	8.7%
<u>Wage and Salary Employment:</u> ⁽²⁾					
Agriculture	2,700	2,800	2,700	2,700	2,500
Mining and Logging	200	200	200	200	200
Construction	41,300	43,100	45,400	44,300	35,000
Manufacturing	42,600	43,500	43,500	42,100	37,900
Wholesale Trade	26,100	26,700	27,100	26,800	24,600
Retail Trade	93,800	93,600	95,000	94,000	87,500
Transportation, Warehousing, Utilities	43,500	42,100	40,600	39,800	37,700
Information	40,800	39,000	39,500	40,800	39,800
Finance and Insurance	66,900	67,500	67,700	65,600	60,500
Real Estate and Rental and Leasing	20,900	21,200	21,100	21,200	19,700
Professional and Business Services	183,000	191,700	203,900	210,100	197,500
Educational and Health Services	100,800	103,200	105,200	107,400	107,400
Leisure and Hospitality	116,100	119,900	124,300	126,800	121,900
Other Services	36,900	37,300	38,600	39,400	37,500
Federal Government	20,400	19,900	19,400	19,200	18,900
State Government	32,800	34,100	34,900	35,600	35,300
Local Government	79,800	81,400	82,700	83,500	81,200
Total, All Industries ⁽³⁾	948,600	967,200	991,800	999,300	944,800

(1) Labor force data is by place of residence; includes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

(2) Industry employment is by place of work; excludes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

(3) Totals may not add due to rounding.

Source: State of California Employment Development Department.

Major Employers

The following table lists the major employers within the County as of January 2011.

COUNTY OF SAN MATEO Major Employers January 2011 (Listed Alphabetically)

<u>Employer Name</u>	<u>Location</u>	<u>Industry</u>
AB Sciex	Foster City	Physicians & Surgeons Equip & Supls-Mfrs
Burlingame Millbrae Yellow Cab	Burlingame	Taxicabs & Transportation Service
Electronic Arts Inc	Redwood City	Game Designers (Mfrs)
Forced Dump Debris Box Svc	Burlingame	Garbage Collection
Franklin Resources Inc	San Mateo	Investment Management
Franklin Templeton Group	San Mateo	Investment Management
Franklin Trust Co	San Mateo	Mutual Funds
Genentech Inc	South San Francisco	Drug Millers (Mfrs)
Gilead Sciences Inc	Foster City	Biological Products (Mfrs)
Guckenhimer Inc	Redwood City	Food Service-Management
Health Science Library	Daly City	Services Nec
Kaiser Foundation Medical Grp	South San Francisco	Physicians & Surgeons
Kaiser Permanente Medical Ctr	Redwood City	Hospitals
Oracle Corp	Redwood City	Computer Software-Manufacturers
Peninsula Medical Ctr	Burlingame	Hospitals
San Mateo County Human Svc	Belmont	County Government-Social/Human Resources
San Mateo County Mental Health	San Mateo	County Government-Public Health Programs
San Mateo County Transit	San Carlos	Transit Lines
San Mateo Medical Ctr	San Mateo	Crisis Intervention Service
Sing Shot Media LLC	Redwood City	Advertising Nec
SRI International Inc	Menlo Park	Research Service
Stanford Linear Accelerator	Menlo Park	Research Service
US Interior Dept	Menlo Park	Federal Government-Conservation Depts
Visa International Svc Assn	Foster City	Credit Card-Merchant Services
Visa USA Inc	Foster City	Credit Card & Other Credit Plans

Source: State of California Employment Development Department; compiled from America's Labor Market Information System Employer Database, 2011 1st Edition.

Commercial Activity

During first three quarters of calendar year 2009, total taxable sales in the Town were reported to be \$8,295,000, a 53.2% increase over the total taxable sales of \$5,416,000 that were reported during the first three quarters of calendar year 2008. Annual figures are not yet available for calendar year 2009. A summary of historic taxable sales within the Town is shown in the following table.

TOWN OF HILLSBOROUGH
Taxable Retail Sales
Number of Permits and Valuation of Taxable Transactions
(Dollars in Thousands)

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2004	55	\$706	263	\$6,393
2005	53	744	251	7,186
2006	62	920	243	6,810
2007	60	977	218	10,130
2008	56	874	211	7,256

Source: California State Board of Equalization, Taxable Sales in California (Sales & Use Tax).

During the first three quarters of calendar year 2009, total taxable sales in the County were reported to be \$8,261,937,000, an 16.8% decrease over the total taxable sales of \$9,926,681,000 that were reported during the first three quarters of calendar year 2008. Annual figures are not yet available for calendar year 2009. A summary of historic taxable sales within the Town is shown in the following table.

SAN MATEO COUNTY
Taxable Retail Sales
Number of Permits and Valuation of Taxable Transactions
(Dollars in Thousands)

	Retail Stores		Total All Outlets	
	Number of Permits on August 1	Taxable Transactions	Number of Permits on August 1	Taxable Transactions
2004	8,975	\$8,088,935	21,475	\$11,808,074
2005	9,282	8,495,119	21,440	12,451,350
2006	9,467	8,723,143	21,082	12,900,391
2007	9,278	8,998,981	20,202	13,326,306
2008	9,098	8,421,727	19,853	13,137,913

Source: California State Board of Equalization, Taxable Sales in California (Sales & Use Tax).

Effective Buying Income

“Effective Buying Income” is defined as personal income less personal tax and nontax payments, a number often referred to as “disposable” or “after-tax” income. Personal income is the aggregate of wages and salaries, other labor-related income (such as employer contributions to private pension funds), proprietor’s income, rental income (which includes imputed rental income of owner-occupants of non-farm dwellings), dividends paid by corporations, interest income from all sources, and transfer payments (such as pensions and welfare assistance). Deducted from this total are personal taxes (federal, state and local), nontax payments (fines, fees, penalties, etc.) and personal contributions to social insurance. According to U.S. government definitions, the resultant figure is commonly known as “disposable personal income.”

TOWN OF HILLSBOROUGH AND SAN MATEO COUNTY Median Household Effective Buying Income As of January 1, 2005 through 2009

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Town of Hillsborough	\$136,201	\$141,774	\$149,313	\$158,284	\$158,459
San Mateo County	60,284	62,749	65,262	67,466	69,276
California	44,681	46,275	48,203	48,952	49,736
United States	40,529	41,255	41,792	42,303	43,252

Source: The Nielsen Company (US), Inc.

Construction Activity

The following tables show a five year summary of the valuation of building permits issued in the Town and the County.

TOWN OF HILLSBOROUGH Building Permit Valuation (Valuation in Thousands of Dollars)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
<u>Permit Valuation</u>					
New Single-family	\$21,617.5	\$20,000.0	\$32,006.0	\$26,482.8	\$14,050.7
New Multi-family	0.0	0.0	0.0	0.0	0.0
Res. Alterations/Additions	<u>37,976.7</u>	<u>36,097.5</u>	<u>37,737.3</u>	<u>25,874.6</u>	<u>19,157.8</u>
Total Residential	59,594.2	56,097.5	69,803.2	52,357.3	33,208.4
New Commercial	0.0	0.0	0.0	0.0	0.0
New Industrial	0.0	0.0	0.0	0.0	0.0
New Other	2,163.1	3,555.4	4,597.7	4,842.9	2,444.1
Com. Alterations/Additions	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total Nonresidential	2,163.1	3,555.4	4,597.7	4,842.9	2,444.1

New Dwelling Units

Single Family	16	16	20	17	9
Multiple Family	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL	16	16	20	17	9

Source: Construction Industry Research Board, Building Permit Summary.

SAN MATEO COUNTY
Building Permit Valuation
(Valuation in Thousands of Dollars)

	2005	2006	2007	2008	2009
<u>Permit Valuation</u>					
New Single-family	\$216,141.5	\$227,781.1	\$316,491.4	\$245,433.9	\$147,515.5
New Multi-family	65,456.5	101,114.4	67,181.1	122,424.2	74,329.6
Res. Alterations/Additions	<u>282,584.2</u>	<u>305,663.4</u>	<u>274,263.6</u>	<u>272,177.0</u>	<u>204,482.0</u>
Total Residential	564,182.2	634,558.9	657,936.0	640,035.2	426,327.0
New Commercial	62,355.2	218,650.9	366,581.6	114,968.0	17,942.0
New Industrial	50,701.3	127,900.5	29,263.8	2,200.0	5,000.0
New Other	60,458.8	50,057.9	74,829.0	85,470.2	70,410.1
Com. Alterations/Additions	<u>229,201.0</u>	<u>329,062.3</u>	<u>336,069.0</u>	<u>315,260.4</u>	<u>235,373.3</u>
Total Nonresidential	\$402,716.3	\$725,671.6	\$806,743.4	\$517,898.6	\$328,725.5
<u>New Dwelling Units</u>					
Single Family	427	445	658	312	236
Multiple Family	<u>465</u>	<u>492</u>	<u>367</u>	<u>630</u>	<u>393</u>
TOTAL	892	937	1,025	942	629

Source: Construction Industry Research Board, Building Permit Summary.

APPENDIX D

FORM OF OPINION OF BOND COUNSEL

_____, 2011

Board of Trustees
Hillsborough City School District
Hillsborough, California

OPINION: \$_____ Hillsborough City School District
 (County of San Mateo, California)
 General Obligation Bonds, Election of 2002, Series C

Members of the Board of Trustees:

We have acted as bond counsel to the Hillsborough City School District (the "District") in connection with the issuance by the District of its Hillsborough City School District (County of San Mateo, California) General Obligation Bonds, Election of 2002, Series C in the aggregate principal amount of \$_____ (the "Bonds"), under Article 4.5 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, commencing with Section 53506 of said Code (the "Bond Law") and under a resolution of the Board of Trustees of the District adopted on December 15, 2010 (the "Bond Resolution"). We have examined the law and such certified proceedings and other papers as we have deemed necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the Board contained in the Bond Resolution and in the certified proceedings and certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion, under existing law, as follows:

1. The District is duly established and validly existing as a high school district with the power to issue the Bonds and to perform its obligations under the Bond Resolution.
2. The Bond Resolution has been duly adopted by the Board of Trustees of the District and constitutes the valid and binding obligation of the District enforceable against the District in accordance with its terms.
3. The Bonds have been duly issued and sold by the District and are valid and binding general obligations of the District, and the County of Santa Clara is obligated to levy *ad valorem* taxes for the payment of the Bonds and the interest thereon upon all property within the District subject to taxation by the District, without limitation as to rate or amount.

4. Interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. The opinions set forth in the preceding sentence are subject to the condition that the District comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The District has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

5. The interest on the Bonds is exempt from personal income taxation imposed by the State of California.

The rights of the owners of the Bonds and the enforceability of the Bonds and the Resolution may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and may also be subject to the exercise of judicial discretion in appropriate cases.

Respectfully submitted,

A Professional Law Corporation

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

\$ _____
HILLSBOROUGH CITY SCHOOL DISTRICT
(County of San Mateo, California)
General Obligation Bonds
Election of 2002, Series C

CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the Hillsborough City School District (the "District") in connection with the issuance of \$ _____ aggregate principal amount of Hillsborough City School District (County of San Mateo, California) General Obligation Bonds Election of 2002, Series C (the "Bonds"). The Bonds are being issued pursuant to a Resolution adopted by the District on December 15, 2010 (the "Bond Resolution"). The District covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriters in complying with S.E.C. Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth in the Bond Resolution, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" means any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Dissemination Agent" means the District or any successor Dissemination Agent designated in writing by the District and which has filed with the District a written acceptance of such designation.

"Listed Events" means any of the events listed in Section 5(a) of this Disclosure Certificate.

"MSRB" means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule, or any other repository of disclosure information which may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

"Participating Underwriter" means any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Rule" means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 3. Provision of Annual Reports.

(a) The District shall, or shall cause the Dissemination Agent to provide, not later than nine months after the end of the District's fiscal year (which currently would be March 31), commencing March 31, 2012 with the report for the 2010-11 Fiscal Year, file with the MSRB, in an electronic format as prescribed by the MSRB, an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. An Annual Report shall consist of the most recently available documents of the type to be included in the Annual Report (see Section 4). Not later than fifteen (15) Business Days prior to said date, the District shall provide the Annual Report to the Dissemination Agent (if other than the District). If by such date the Dissemination Agent (if other than the District) has not received a copy of the Annual Report, the Dissemination Agent shall contact the District to determine if the District is in compliance with the previous sentence.

The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the District may be submitted separately from the balance of the Annual Report, and later than the date required above for the filing of the Annual Report if not available by that date. If the District's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c). The District shall provide a written certification with each Annual Report furnished to the Dissemination Agent and the Trustee to the effect that such Annual Report constitutes the Annual Report required to be furnished by the District hereunder.

(b) If the District is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the District shall, by written direction, cause the Dissemination Agent to provide to the MSRB (with a copy to the Trustee) a notice, in substantially the form attached as Exhibit A.

(c) With respect to the Annual Report, the Dissemination Agent shall:

- (i) determine each year prior to the Annual Report Date the then-applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports; and
- (ii) if the Dissemination Agent is other than the District, file a report with the District certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, and stating the date it was provided.

Section 4. Content of Annual Reports. The Annual Report shall contain or incorporate by reference the following:

(a) Audited financial statements prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the District's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) To the extent not contained in the audited financial statements filed pursuant to the preceding clause (a), the Annual Report shall contain information showing:

- (i) the average daily attendance in District schools by grade level for the preceding fiscal year and for the current budget year;
- (ii) pension plan contributions (PERS and STRS) made by the District for the preceding fiscal year and for the current budget year;
- (iii) aggregate principal amount of short-term borrowings, lease obligations and other long-term borrowings of the District as of the end of the preceding fiscal year;
- (iv) description of amount of general fund revenues and expenditures which have been budgeted for the current fiscal year, together with audited actual budget figures for the preceding fiscal year;
- (v) the District's basic aid status (as certified by the State Department of Education), or if the District is no longer a basic aid district, the District's total revenue limit for the preceding fiscal year; and;
- (vi) if the County is no longer operating under the "Teeter Plan", the prior fiscal year total secured property tax levy and collections, showing current collections as a percent of the total levy; and
- (vii) current fiscal year assessed valuation of taxable properties in the District, including assessed valuation of the top ten properties.

(c) In addition to any of the information expressly required to be provided under paragraphs (a) and (b) of this Section, the District shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which are available to the public on the MSRB's Internet web site or filed with the Securities and Exchange Commission. The District shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

- (1) Principal and interest payment delinquencies.
- (2) Non-payment related defaults, if material.
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties.

- (4) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (5) Substitution of credit or liquidity providers, or their failure to perform.
- (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax-exempt status of the security.
- (7) Modifications to rights of security holders, if material.
- (8) Bond calls, if material, and tender offers.
- (9) Defeasances.
- (10) Release, substitution, or sale of property securing repayment of the securities, if material.
- (11) Rating changes.
- (12) Bankruptcy, insolvency, receivership or similar event of the District.
- (13) The consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.
- (14) Appointment of a successor or additional paying agent or the change of name of a paying agent, if material.

(b) Whenever the District obtains knowledge of the occurrence of a Listed Event, and, if the Listed Event is described in subsections (a)(2), (a)(6), (a)(7), (a)(8) (if the event is a bond call), (a)(10), (a)(13) or (a)(14) above, the District determines that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities law, the District shall, or shall cause the Dissemination Agent (if not the District) to, file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds.

Section 6. Identifying Information for Filings with the MSRB. All documents provided to the MSRB under the Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.

Section 7. Termination of Reporting Obligation. The District's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the District shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 8. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate,

and may discharge any such Agent, with or without appointing a successor Dissemination Agent.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

- (a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or type of business conducted;
- (b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and
- (c) the proposed amendment or waiver either (i) is approved by holders of the Bonds in the manner provided in the Bond Resolution for amendments to the Bond Resolution with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first annual financial information filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the District to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be filed in the same manner as for a Listed Event under Section 5(c).

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate, any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Bond Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriters and holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: _____, 2011

**HILLSBOROUGH CITY SCHOOL
DISTRICT**

By: _____
Superintendent

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Obligor: Hillsborough City School District

Name of Bond Issue: \$_____ aggregate principal amount of Hillsborough City School District (County of San Mateo, California) General Obligation Bonds, Election of 2002, Series C

Date of Issuance: _____, 2011

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report with respect to the above-named Bonds as required by of the Bond Resolution authorizing the issuance of the Bonds. The District anticipates that the Annual Report will be filed by _____.

Dated: _____

**HILLSBOROUGH CITY SCHOOL
DISTRICT**

By _____
Superintendent

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APPENDIX F

BOOK-ENTRY ONLY SYSTEM

The Depository Trust Company ("**DTC**"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully registered bonds registered in the name of Cede & Co. (DTC's partnership nominee). One fully registered Bond will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

*The following description of DTC, the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, interest and other payments on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be. Neither the issuer of the Bonds (the "**Issuer**") nor the trustee, paying agent or fiscal agent appointed with respect to the Bonds (the "**Trustee**") take any responsibility for the information contained in this Appendix.*

No assurances can be given that DTC, Direct Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, Direct Participants or Indirect Participants will act in the manner described in this Appendix. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC and its Participants.

The Depository Trust Company ("**DTC**"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered security certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instrument from over 100 countries that DTC's participants ("**Direct Participants**") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates.

Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("**DTCC**"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("**Indirect Participants**"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Book-Entry Only System.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Security ("**Beneficial Owner**") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of, premium, if any, and interest evidenced by the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Issuer or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Issuer or the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of, premium, if any, and interest evidenced by the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Issuer or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The Issuer may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

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APPENDIX G

**SAN MATEO COUNTY POOL
MONTHLY INVESTMENT REPORT OF NOVEMBER 30, 2010**

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Office of the County Treasurer



LEE BUFFINGTON
TAX COLLECTOR – TREASURER

COUNTY OF SAN MATEO

CHARLES M. TOVSTEIN
ASSISTANT TREASURER

555 COUNTY CENTER • REDWOOD CITY • CALIFORNIA 94063 • PHONE (650) 363-4580 • FAX (650) 363-4944

DATE: December 9, 2010

TO: San Mateo County Pool Participants

FROM: Lee Buffington, Tax Collector-Treasurer

SUBJECT: Monthly Investment Reports

Gross earnings for the month of November 30, 2010 were 1.25%. The current average maturity of the portfolio is 1.5 years with an average duration of 1.4 years. The portfolio continues to hold no derivative products.

San Mateo County Pool fulfills Government Code Section 53646, which states its ability to meet its expenditure requirements for the next six months.

I certify these reports are in compliance with the investment policy dated January 2008. If you have any questions regarding any of these reports, please call Charles Tovstein or myself at (650) 363 - 4580.

A handwritten signature in black ink, appearing to read "Lee Buffington".

Lee Buffington
Tax Collector-Treasurer

**COUNTY OF SAN MATEO
ESTIMATED SUMMARY OF POOL EARNINGS
NOVEMBER 2010**

	<u>11/30/10 Par Value</u>	<u>Gross Earnings</u>
<u>Fixed Income Investments</u>		
U S Treasury Notes	250,000,000	124,164
Federal Agencies	495,000,000	453,612
Corporate Notes	188,750,000	345,439
Floating Rate Securities	75,000,000	21,553
<u>Short Term Investments</u>		
Federal Agencies	542,070,000	106,841
Corporate Notes	20,000,000	30,810
Floating Rate Securities	20,000,000	12,008
FDIC-TLGP-CB	15,000,000	20,959
U S Treasury Bills	349,000,000	38,293
Repurchase Agreements	361,000,000	2,206
SUBTOTAL - ACCRUED INCOME	\$2,315,820,000	\$1,155,886

<u>Realized Gain/Loss & Interest Received</u>		
U S Treasury Notes		455,683
Federal Agencies		222,720
Corporate Notes		448,756
U S Treasury Bills		5,997
Repurchase Agreements		56,309

GROSS POOL RATE/EARNINGS*	1.25%	<u>\$2,345,352</u>
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POOL 1 NET EARNINGS RATE*	1.11%
POOL 2 NET EARNINGS RATE*	1.12%
POOL 3 NET EARNINGS RATE*	1.13%

* - Earnings %'s are based on NOVEMBER 2010 Average Daily Balance
Pool 1 & 2 rates include banking charges

SAN MATEO COUNTY TREASURER'S OFFICE
FIXED INCOME DISTRIBUTION - SETTLED TRADES
SAN MATEO COUNTY POOL

November 30, 2010

Summary Information

Totals		Weighted Averages	
Par Value	2,315,820,000	Average YTM	0.6
Market Value	2,328,890,183.78	Average Maturity (yrs)	1.5
Total Cost	2,314,552,718.12	Average Coupon (%)	0.756
Net Gain/Loss	14,337,465.66	Average Duration	1.4
Annual Income	17,247,104.50	Average Moody Rating	Aa1
Accrued Interest	3,308,212.93	Average S&P Rating	AA+
Number of Issues	84		

Distribution by Maturity

Maturity	Number	Mkt Value	% Bond Holdings	Average Y T M	Average Coupon	Average Duration
Under 1 Yr	34	1,306,914,529.53	56.1	0.2	0.156 %	0.3
1 Yr - 3 Yrs	33	579,062,526.33	24.9	0.8	1.116 %	1.8
3 Yrs - 5 Yrs	17	442,913,127.92	19.0	1.6	2.059 %	4.3

Distribution by Coupon

Coupon %	Number	Mkt Value	% Bond Holdings	Average Y T M	Average Coupon	Average Duration
Under 1%	43	1,465,347,996.55	62.9	0.3	0.166 %	0.5
1% - 3%	34	767,172,236.67	32.9	1.1	1.514 %	3.0
3% - 5%	6	85,179,479.44	3.7	1.9	3.449 %	3.7
5% - 7%	1	11,190,471.11	0.5	2.4	5.900 %	3.1

Distribution by Duration

Duration	Number	Mkt Value	% Bond Holdings	Average Y T M	Average Coupon	Average Duration
Under 1 Yr	35	1,326,877,029.53	57.0	0.2	0.160 %	0.3
1 Yr - 3 Yrs	33	569,077,526.33	24.4	0.8	1.135 %	1.9
3 Yrs - 5 Yrs	16	432,935,627.92	18.6	1.6	2.089 %	4.3

Distribution by Moody Rating

Rating	Number	Mkt Value	% Bond Holdings	Average Y T M	Average Coupon	Average Duration
Aaa	66	2,061,558,766.78	88.5	0.5	0.574 %	1.3
Aa1	2	26,843,386.67	1.2	1.7	3.447 %	3.7
Aa2	9	124,826,861.39	5.4	2.1	3.148 %	3.7
Aa3	4	70,273,911.36	3.0	0.6	0.706 %	1.5

MARKET VALUE ON THE FIXED INCOME DISTRIBUTION REPORT INCLUDES ANY ACCRUED INTEREST THAT A SECURITY HAS EARNED. TOTAL COST DOES NOT REFLECT AMORTIZATIONS OR ACCRETIONS BUT INCLUDES PURCHASED ACCRUED INTEREST. MONTHLY TRANSACTION SUMMARY REPORT IS AVAILABLE UPON REQUEST.

SAN MATEO COUNTY TREASURER'S OFFICE
FIXED INCOME DISTRIBUTION - SETTLED TRADES
SAN MATEO COUNTY POOL

November 30, 2010

A1	2	35,379,098.81	1.5	0.9	1.062 %	2.0
A2	1	10,008,158.77	0.4	0.4	0.539 %	0.1

Distribution by S&P Rating

<u>Rating</u>	<u>Number</u>	<u>Mkt Value</u>	<u>% Bond Holdings</u>	<u>Average Y T M</u>	<u>Average Coupon</u>	<u>Average Duration</u>
AAA	66	2,061,558,766.78	88.5	0.5	0.574 %	1.3
AA+	5	78,221,270.83	3.4	2.3	3.517 %	3.4
AA	7	83,867,927.22	3.6	1.7	2.842 %	4.0
AA-	4	75,217,003.25	3.2	0.7	0.696 %	1.4
A+	1	20,017,056.92	0.9	0.3	0.336 %	1.5
A	1	10,008,158.77	0.4	0.4	0.539 %	0.1

MARKET VALUE ON THE FIXED INCOME DISTRIBUTION REPORT INCLUDES ANY ACCRUED INTEREST THAT A SECURITY HAS EARNED. TOTAL COST DOES NOT REFLECT AMORTIZATIONS OR ACCRETIONS BUT INCLUDES PURCHASED ACCRUED INTEREST. MONTHLY TRANSACTION SUMMARY REPORT IS AVAILABLE UPON REQUEST.

SAN MATEO COUNTY TREASURER'S OFFICE
PORTFOLIO APPRAISAL
SAN MATEO COUNTY POOL
November 30, 2010

Security	Call Date One	Call Price One	Quantity	Unit Cost	Total Cost	Market Price	Market Value	Accrued Interest	Market Value + Accrued Interest	S&P	Pct Assets
CERTIFICATE OF DEPOSIT											
DEUTSCHE BANK NY - CD FLOATER 0.589% Due 01-19-12			20,000,000	100.00	20,000,000.00	99.49	19,897,200.00	13,744.73	19,910,944.73	AA-	0.86
REPURCHASE AGREEMENTS											
REPURCHASE AGREEMENT(U.S. TREAS NTS COLLAT) 0.230% Due 12-01-10			150,000,000	100.00	150,000,000.00	100.00	150,000,000.00	0.00	150,000,000.00	AAA	6.45
REPURCHASE AGREEMENT(U.S. TREAS NTS COLLAT) 0.220% Due 12-01-10			136,000,000	100.00	136,000,000.00	100.00	136,000,000.00	0.00	136,000,000.00	AAA	5.85
REPURCHASE AGREEMENT(U.S. TREAS NTS COLLAT) 0.200% Due 12-01-10			75,000,000	100.00	75,000,000.00	100.00	75,000,000.00	0.00	75,000,000.00	AAA	3.22
			<u>361,000,000</u>		<u>361,000,000.00</u>		<u>361,000,000.00</u>	<u>0.00</u>	<u>361,000,000.00</u>		<u>15.52</u>
UNITED STATES TREASURY BILLS											
SAN MATEO COUNTY EARNINGS CREDIT PLUS ACCT 0.000% Due 06-02-11			30,000,000	100.00	30,000,000.00	100.00	30,000,000.00	0.00	30,000,000.00	AAA	1.29
FLOATING RATE SECURITIES											
MORGAN STANLEY DEAN WITTER CB FLOATER 0.539% Due 01-18-11			10,000,000	100.00	10,000,000.00	100.02	10,001,720.00	6,438.77	10,008,158.77	A	0.43
WELLS FARGO & COMPANY CB FLOATER 0.378% Due 01-24-12			25,000,000	100.00	25,000,000.00	99.80	24,950,425.00	9,723.81	24,960,148.81	AA-	1.07
COCA-COLA CO. 0.336% Due 05-15-12			20,000,000	100.00	20,000,000.00	100.07	20,014,260.00	2,796.92	20,017,056.92	A+	0.86
PROCTER & GAMBLE CO. 0.323% Due 11-14-12			10,000,000	100.00	10,000,000.00	100.06	10,005,870.00	1,436.93	10,007,306.93	AA-	0.43
			<u>65,000,000</u>		<u>65,000,000.00</u>		<u>64,972,275.00</u>	<u>20,396.43</u>	<u>64,992,671.43</u>		<u>2.79</u>
CORPORATE BONDS											
PROCTER & GAMBLE CB 1.375% Due 08-01-12			20,000,000	99.93	19,985,400.00	101.24	20,247,700.00	90,902.78	20,338,602.78	AA-	0.87
GENERAL ELECTRIC CAPITAL CORPORATION 2.800% Due 01-08-13			15,000,000	99.87	14,980,650.00	102.48	15,372,105.00	165,666.67	15,537,771.67	AA+	0.66
MICROSOFT CORPORATION 0.875% Due 09-27-13			13,750,000	100.26	13,785,893.23	99.83	13,726,253.75	21,054.69	13,747,308.44	AAA	0.59
CHEVRON CORPORATION 3.950% Due 03-03-14			10,000,000	99.82	9,981,600.00	108.30	10,829,930.00	95,458.33	10,925,388.33	AA	0.47
GENERAL ELECTRIC CAPITAL CORP. CB 5.900% Due 05-13-14			10,000,000	99.89	9,988,900.00	111.63	11,162,610.00	27,861.11	11,190,471.11	AA+	0.48

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SAN MATEO COUNTY TREASURER'S OFFICE
PORTFOLIO APPRAISAL
SAN MATEO COUNTY POOL
November 30, 2010

Security	Call Date One	Call Price One	Quantity	Unit Cost	Total Cost	Market Price	Market Value	Accrued Interest	Market Value + Accrued Interest	S&P	Pct Assets
WAL-MART STORES INC. 3.200% Due 05-15-14			10,000,000	99.99	9,998,700.00	106.06	10,605,900.00	13,333.33	10,619,233.33	AA	0.46
GENERAL ELECTRIC CAPITAL CORPORATION 3.200% Due 02-11-15			25,000,000	99.60	24,901,000.00	105.26	26,314,625.00	41,666.67	26,356,291.67	AA+	1.13
3.750% Due 11-14-14			10,000,000	99.83	9,982,600.00	104.83	10,483,000.00	96,888.89	10,579,888.89	AA+	0.45
BERKSHIRE HATHAWAY INC. 3.200% Due 02-11-15			10,000,000	99.88	9,987,580.00	104.17	10,416,700.00	2,250.00	10,418,950.00	AA	0.45
ABBOTT LABORATORIES 2.700% Due 05-27-15			10,000,000	99.88	9,987,600.00	106.36	10,635,790.00	144,888.89	10,780,678.89	AA	0.46
TOYOTA MOTOR CREDIT CORPORATION 3.200% Due 06-17-15			15,000,000	99.93	14,989,650.00	104.81	15,721,665.00	196,333.33	15,917,998.33	AA	0.68
SHELL INTERNATIONAL FINANCIAL 3.100% Due 06-28-15			15,000,000	99.69	14,954,250.00	101.69	15,252,810.00	133,125.00	15,385,935.00	AA	0.66
WAL-MART STORES INC 2.250% Due 07-08-15			10,000,000	99.46	9,945,900.00	98.05	9,805,160.00	14,583.33	9,819,743.33	AA	0.42
WAL-MART STORES INC 1.500% Due 10-25-15			15,000,000	99.92	14,988,750.00	96.91	14,537,160.00	19,687.50	14,556,847.50	AA+	0.63
GENERAL ELECTRIC CAPITAL CORPORATION 2.250% Due 11-09-15			188,750,000		188,458,473.23		195,111,408.75	1,063,700.52	196,175,109.27		8.39
FEDERAL AGENCY - FLOATING RATE SECURITIES											
FEDERAL HOME LOAN BANK FLOATER 0.159% Due 08-01-11			10,000,000	99.95	9,994,813.00	99.95	9,995,480.00	1,280.83	9,996,760.83	AAA	0.43
FEDERAL HOME LOAN MORTGAGE CORP. FLOATER 0.216% Due 08-05-11			20,000,000	100.00	20,000,000.00	100.02	20,003,720.00	2,999.17	20,006,719.17	AAA	0.86
FEDERAL NATIONAL MORTGAGE ASSOCIATION FLOAT TO FIX 0.409% Due 02-23-12	02-23-11	100.00	5,000,000	100.00	5,000,000.00	100.04	5,002,050.00	398.01	5,002,448.01	AAA	0.22
FEDERAL HOME LOAN MORTGAGE CORPORATION-FLOATER 0.194% Due 05-01-12			20,000,000	100.00	20,000,000.00	99.91	19,981,660.00	3,126.52	19,984,786.52	AAA	0.86
			55,000,000		54,994,813.00		54,982,910.00	7,804.53	54,990,714.53		2.36
FEDERAL AGENCY SECURITIES											
FEDERAL HOME LOAN MORTGAGE CORPORATION 0.000% Due 12-06-10			40,000,000	99.86	39,943,000.00	100.00	40,000,000.00	0.00	40,000,000.00	AAA	1.72
FEDERAL NATIONAL MORTGAGE ASSOCIATION DISCOUNT 0.000% Due 01-10-11			35,000,000	99.92	34,973,019.44	99.98	34,993,000.00	0.00	34,993,000.00	AAA	1.50
FEDERAL NATIONAL MORTGAGE ASSOCIATION DISCOUNT			25,000,000	99.88	24,970,055.56	99.98	24,995,000.00	0.00	24,995,000.00	AAA	1.07

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SAN MATEO COUNTY TREASURER'S OFFICE
PORTFOLIO APPRAISAL
SAN MATEO COUNTY POOL
November 30, 2010

Security	Call Date One	Call Price One	Quantity	Unit Cost	Total Cost	Market Price	Market Value	Accrued Interest	Market Value + Accrued Interest	S&P	Pct Assets
0.000% Due 01-12-11 FEDERAL HOME LOAN MORTGAGE CORPORATION DISCOUNT			45,000,000	99.89	44,950,555.56	99.98	44,991,000.00	0.00	44,991,000.00	AAA	1.93
0.000% Due 01-18-11 FEDERAL NATIONAL MORTGAGE ASSOCIATION DISCOUNT			37,500,000	99.94	37,477,875.00	99.98	37,492,500.00	0.00	37,492,500.00	AAA	1.61
0.000% Due 01-18-11 FEDERAL HOME LOAN BANK - DISCOUNT NOTE			11,570,000	99.94	11,563,058.00	99.98	11,567,686.00	0.00	11,567,686.00	AAA	0.50
0.000% Due 01-20-11 FEDERAL HOME LOAN BANK DISCOUNT NOTE			25,000,000	99.88	24,969,204.86	99.98	24,995,000.00	0.00	24,995,000.00	AAA	1.07
0.000% Due 01-26-11 FEDERAL NATIONAL MORTGAGE ASSOCIATION DISCOUNT			25,000,000	99.88	24,969,204.86	99.98	24,995,000.00	0.00	24,995,000.00	AAA	1.07
0.000% Due 01-26-11 FEDERAL HOME LOAN MORTGAGE DISCOUNT			26,000,000	99.92	25,978,372.22	99.97	25,992,200.00	0.00	25,992,200.00	AAA	1.12
0.000% Due 02-08-11 FEDERAL HOME LOAN BANK DISCOUNT NOTE			25,000,000	99.96	24,990,520.83	99.97	24,992,500.00	0.00	24,992,500.00	AAA	1.07
0.000% Due 02-09-11 FEDERAL HOME LOAN BANK	12-23-10	100.00	20,000,000	100.00	20,000,000.00	100.03	20,006,250.00	18,611.11	20,024,861.11	AAA	0.86
0.500% Due 04-06-11 FEDERAL HOME LOAN BANK - DISCOUNT NOTE			29,000,000	99.85	28,956,016.67	99.91	28,973,900.00	0.00	28,973,900.00	AAA	1.25
0.000% Due 05-20-11 FEDERAL HOME LOAN MORTGAGE CORPORATION DISCOUNT			15,000,000	99.83	14,973,958.33	99.90	14,985,000.00	0.00	14,985,000.00	AAA	0.64
0.000% Due 05-25-11 FEDERAL HOME LOAN MORTGAGE DISCOUNT			73,000,000	99.81	72,864,300.01	99.89	72,919,700.00	0.00	72,919,700.00	AAA	3.14
0.000% Due 06-07-11 FEDERAL NATIONAL MORTGAGE ASSOCIATION DISCOUNT			20,000,000	99.74	19,947,316.67	99.87	19,974,000.00	0.00	19,974,000.00	AAA	0.86
0.000% Due 07-05-11 FEDERAL HOME LOAN BANK	01-28-11	100.00	15,000,000	100.00	15,000,000.00	99.87	14,981,250.00	4,000.00	14,985,250.00	AAA	0.64
0.300% Due 10-28-11 FEDERAL NATIONAL MORTGAGE ASSOCIATION			15,000,000	99.76	14,963,700.00	100.53	15,079,687.50	2,916.67	15,082,604.17	AAA	0.65
1.000% Due 11-23-11 FEDERAL HOME LOAN BANK	12-08-10	100.00	30,000,000	100.00	30,000,000.00	99.84	29,953,125.00	7,333.33	29,960,458.33	AAA	1.29
0.400% Due 11-25-11 FEDERAL HOME LOAN BANK	12-15-10	100.00	20,000,000	100.00	20,000,000.00	99.81	19,962,500.00	0.00	19,962,500.00	AAA	0.86
0.400% Due 12-09-11 FEDERAL HOME LOAN MORTGAGE			30,000,000	99.85	29,955,300.00	100.69	30,206,250.00	154,687.50	30,360,937.50	AAA	1.30

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SAN MATEO COUNTY TREASURER'S OFFICE
PORTFOLIO APPRAISAL
SAN MATEO COUNTY POOL
November 30, 2010

Security	Call Date One	Call Price One	Quantity	Unit Cost	Total Cost	Market Price	Market Value	Accrued Interest	Market Value + Accrued Interest	S&P	Pct Assets
CORPORATION											
1.125% Due 12-15-11											
FEDERAL HOME LOAN BANK											
1.000% Due 12-28-11	01-26-11	100.00	25,000,000	99.77	24,941,750.00	100.56	25,140,625.00	105,555.56	25,246,180.56	AAA	1.08
FEDERAL HOME LOAN MORTGAGE											
CORPORATION											
1.250% Due 01-26-12			5,000,000	100.00	5,000,000.00	100.10	5,004,825.00	21,527.78	5,026,352.78	AAA	0.22
FEDERAL NATIONAL MORTGAGE											
ASSOCIATION											
1.250% Due 06-22-12			15,000,000	99.89	14,983,050.00	101.12	15,168,750.00	82,291.67	15,251,041.67	AAA	0.65
FEDERAL HOME LOAN MORTGAGE											
ASSOCIATION											
1.250% Due 06-22-12	01-20-11	100.00	10,000,000	100.00	10,000,000.00	100.06	10,006,470.00	36,111.11	10,042,581.11	AAA	0.43
FEDERAL HOME LOAN MORTGAGE											
CORPORATION											
1.000% Due 07-20-12			25,000,000	99.97	24,993,750.00	100.97	25,242,187.50	93,750.00	25,335,937.50	AAA	1.09
FEDERAL NATIONAL MORTGAGE											
ASSOCIATION											
1.125% Due 07-30-12			10,000,000	99.93	9,992,600.00	102.03	10,203,125.00	53,472.22	10,256,597.22	AAA	0.44
FEDERAL NATIONAL MORTGAGE											
ASSOCIATION											
1.750% Due 08-10-12	02-16-11	100.00	10,000,000	100.00	10,000,000.00	100.06	10,006,250.00	23,111.11	10,029,361.11	AAA	0.43
FEDERAL NATIONAL MORTGAGE											
ASSOCIATION											
0.800% Due 08-16-12											
FEDERAL HOME LOAN BANK			30,000,000	99.87	29,961,300.00	100.53	30,159,375.00	71,458.33	30,230,833.33	AAA	1.30
0.875% Due 08-22-12			25,000,000	100.00	25,000,000.00	99.84	24,960,937.50	19,930.56	24,980,868.06	AAA	1.07
FEDERAL NATIONAL MORTGAGE	04-19-11	100.00									
ASSOCIATION											
0.700% Due 10-19-12			15,000,000	99.78	14,967,600.00	101.97	15,295,312.50	6,093.75	15,301,406.25	AAA	0.66
FEDERAL HOME LOAN BANK											
1.625% Due 11-21-12	12-28-10	100.00	40,000,000	100.42	40,167,861.11	100.05	40,019,240.00	211,111.11	40,230,351.11	AAA	1.72
FEDERAL HOME LOAN MORTGAGE											
CORPORATION											
1.250% Due 12-28-12	01-28-11	100.00	5,000,000	100.87	5,043,627.78	100.19	5,009,375.00	34,736.11	5,044,111.11	AAA	0.22
FEDERAL NATIONAL MORTGAGE											
ASSOCIATION											
2.050% Due 01-28-13			20,000,000	99.86	19,971,200.00	102.41	20,481,250.00	95,277.78	20,576,527.78	AAA	0.88
FEDERAL NATIONAL MORTGAGE											
ASSOCIATION											
1.750% Due 02-22-13	03-15-11	100.00	10,000,000	99.85	9,985,000.00	100.09	10,009,375.00	20,833.33	10,030,208.33	AAA	0.43
FEDERAL NATIONAL MORTGAGE											
ASSOCIATION FIXED TO FLTR											
1.000% Due 03-15-13			15,000,000	99.82	14,972,700.00	102.12	15,318,750.00	47,395.83	15,366,145.83	AAA	0.66
FEDERAL HOME LOAN BANK											
1.625% Due 03-20-13			20,000,000	99.84	19,967,800.00	102.50	20,500,000.00	22,361.11	20,522,361.11	AAA	0.88
FEDERAL NATIONAL MORTGAGE											
ASSOCIATION											
1.750% Due 05-07-13											

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SAN MATEO COUNTY TREASURER'S OFFICE
PORTFOLIO APPRAISAL
SAN MATEO COUNTY POOL
November 30, 2010

Security	Call Date One	Call Price One	Quantity	Unit Cost	Total Cost	Market Price	Market Value	Accrued Interest	Market Value + Accrued Interest	S&P	Pct Assets
FEDERAL NATIONAL MORTGAGE ASSOCIATION 2.000% Due 06-24-13 FEDERAL HOME LOAN MORTGAGE CORPORATION 1.625% Due 06-28-13 FEDERAL HOME LOAN MORTGAGE CORPORATION 1.400% Due 07-26-13 FEDERAL NATIONAL MORTGAGE ASSOCIATION 1.250% Due 08-20-13 FEDERAL NATIONAL MORTGAGE ASSOCIATION 1.125% Due 10-08-13 FEDERAL NATIONAL MORTGAGE ASSOCIATION 1.050% Due 10-22-13 FEDERAL NATIONAL MORTGAGE ASSOCIATION 0.750% Due 12-18-13 FEDERAL NATIONAL MORTGAGE ASSOCIATION 1.500% Due 08-26-14 FEDERAL NATIONAL MORTGAGE ASSOCIATION 2.375% Due 07-28-15 FEDERAL NATIONAL MORTGAGE ASSOCIATION 1.500% Due 11-23-15	06-24-11 06-28-11 01-26-11 04-08-11 04-22-11 08-26-11 11-23-11	100.00 100.00 100.00 100.00 100.00 100.00 100.00 100.00	20,000,000 5,000,000 10,000,000 25,000,000 20,000,000 15,000,000 10,000,000 5,000,000 25,000,000 5,000,000	100.00 100.00 100.00 99.98 100.00 100.00 99.96 100.00 99.70 100.00	20,000,000.00 5,000,000.00 10,000,000.00 24,994,750.00 20,000,000.00 15,000,000.00 9,995,700.00 5,000,000.00 24,926,000.00 5,000,000.00	100.66 100.65 100.11 101.12 99.78 99.72 99.44 100.06 103.75 98.69	20,131,250.00 5,032,735.00 10,010,760.00 25,281,250.00 19,956,250.00 14,957,812.50 9,943,750.00 5,003,125.00 25,937,500.00 4,934,375.00	173,333.33 34,305.56 48,222.22 86,805.56 32,500.00 16,625.00 33,750.00 19,583.33 201,215.28 1,458.33	20,304,583.33 5,067,040.56 10,058,982.22 25,368,055.56 19,988,750.00 14,974,437.50 9,977,500.00 5,022,708.33 26,138,715.28 4,935,833.33	AAA AAA AAA AAA AAA AAA AAA AAA AAA	0.87 0.22 0.43 1.09 0.86 0.64 0.43 0.22 1.12 0.21
UNITED STATES TREASURIES			<u>982,070,000</u>		<u>981,310,146.90</u>		<u>985,770,203.50</u>	<u>1,780,364.58</u>	<u>987,550,568.08</u>		<u>42.39</u>
UNITED STATES TREAS BILL 0.000% Due 01-13-11 UNITED STATES TREAS BILL 0.000% Due 02-17-11 UNITED STATES TREAS BILL 0.000% Due 05-05-11 UNITED STATES TREAS BILL 0.000% Due 06-30-11 UNITED STATES TREAS BILL 0.000% Due 07-28-11 UNITED STATES TREAS BILL 0.000% Due 09-22-11 UNITED STATES TREAS NTs			25,000,000 45,000,000 50,000,000 75,000,000 95,000,000 29,000,000 50,000,000	99.94 99.91 99.91 99.85 99.86 99.79 100.30	24,985,416.67 44,960,725.00 49,956,458.33 74,886,111.11 94,870,500.00 28,940,066.67 50,152,343.75	99.98 99.97 99.92 99.88 99.86 99.81 103.65	24,995,902.50 44,986,369.50 49,959,105.50 74,912,108.25 94,867,578.55 28,944,876.80 51,824,004.50	0.00 0.00 0.00 0.00 0.00 0.00 0.00	24,995,902.50 44,986,369.50 49,959,105.50 74,912,108.25 94,867,578.55 28,944,876.80 51,824,004.50	AAA AAA AAA AAA AAA AAA AAA	1.07 1.93 2.15 3.22 4.08 1.24 2.23

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SAN MATEO COUNTY TREASURER'S OFFICE
PORTFOLIO APPRAISAL
SAN MATEO COUNTY POOL
November 30, 2010

Security	Call Date One	Call Price One	Quantity	Unit Cost	Total Cost	Market Price	Market Value	Accrued Interest	Market Value + Accrued Interest	S&P	Pct Assets
2.125% Due 05-31-15 UNITED STATES TREAS NTS			200,000,000	100.02	200,047,263.46	99.13	198,250,028.00	212,912.09	198,462,940.09	AAA	8.52
1.250% Due 10-31-15			569,000,000		568,798,884.99		568,739,973.60	212,912.09	568,952,885.69		24.46
FDIC-TLGP CB(TEMPORARY LIQUIDITY GUARANTEE PRG)											
BANK OF AMERICA NA CB FDIC			15,000,000	100.00	15,000,000.00	100.09	15,012,900.00	111,208.33	15,124,108.33	AAA	0.65
1.700% Due 12-23-10			20,000,000	99.95	19,990,400.00	100.47	20,093,800.00	77,083.33	20,170,883.33	AAA	0.86
STATE STREET CORP CB FDIC			35,000,000		34,990,400.00		35,106,700.00	188,291.67	35,294,991.67		1.51
FDIC-TLGP CB FLTR(TEMP LIQUIDITY GUARANTEE PRG)											
GENERAL ELECTRIC CAP CORP- TLGP CB			10,000,000	100.00	10,000,000.00	100.01	10,001,300.00	20,998.38	10,022,298.38	AAA	0.43
FLOATER											
0.922% Due 12-09-10											
TOTAL PORTFOLIO			2,315,820,000		2,314,552,718.12		2,325,581,970.85	3,308,212.93	2,328,890,183.78		100.00

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SAN MATEO COUNTY TREASURER'S OFFICE
REALIZED GAINS AND LOSSES - SETTLED TRADES
SAN MATEO COUNTY POOL
From 11-01-10 Through 11-30-10

Open Date	Close Date	Quantity	Security	Cost Basis	Proceeds	Gain Or Loss	
						Short Term	Long Term
				479,015,165.28	480,110,152.78	1,094,987.50	0.00
TOTAL REALIZED GAIN/LOSS		1,094,987.50					

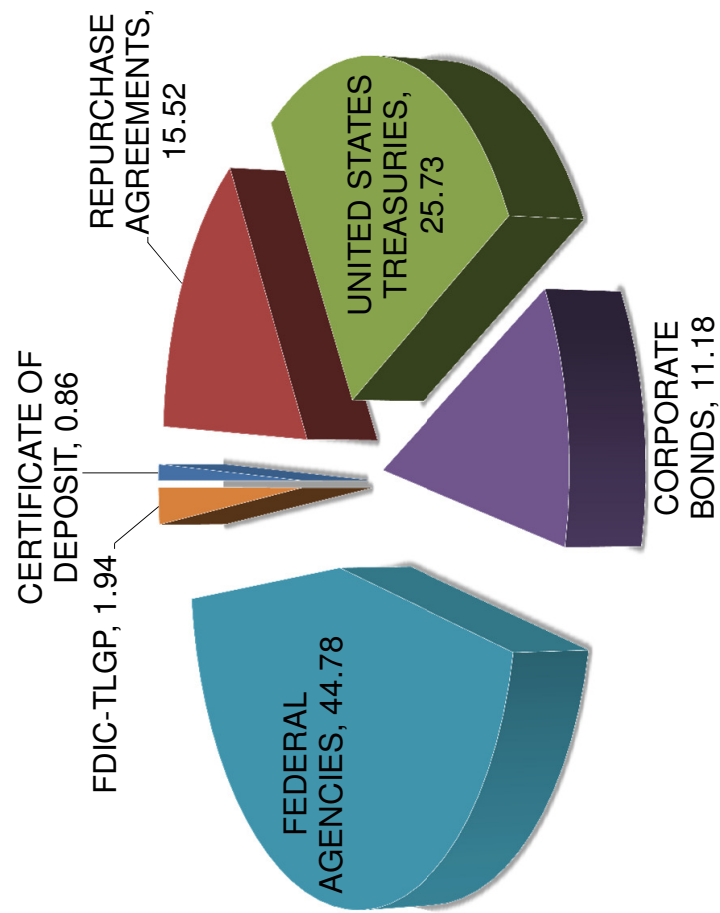
**THESE ARE GROSS PRINCIPAL FIGURES ONLY. THEY DO NOT REFLECT ANY AMORTIZATIONS OR ACCRETIONS. THE COST BASIS DOES NOT REFLECT ANY PURCHASED ACCRUED INTEREST.

DIVERSIFICATION REPORT

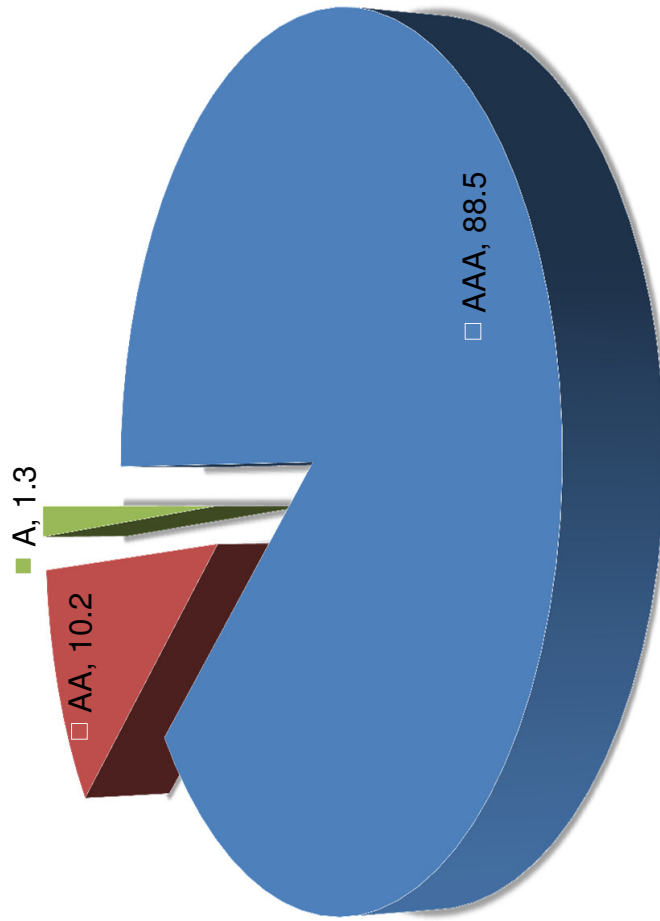
November 30, 2010										2,315,820,000 Portfolio Total			
CN/CP FRN	CN FRN	CN	BA	CP	CD	TOTAL	% to Portf	TLGP	% to Portf				
Abbott Labs	-	10,000,000.00	-			10,000,000.00	0.432%	-	0.000%				
Bank of America	-	-	-			-	0.000%	15,000,000.00	0.648%				
Berkshire Hathwy		10,000,000.00	-			10,000,000.00	0.432%		0.000%				
Chevron Corp	-	10,000,000.00	-			10,000,000.00	0.432%		0.000%				
Coca Cola Co. Filtr	20,000,000.00	-	-			20,000,000.00	0.864%	-	0.000%				
Deutsche Bank	-	-	-	-	20,000,000.00	20,000,000.00	0.864%		0.000%				
General Elec. Captl Corp.	-	65,000,000.00	-	-		65,000,000.00	2.807%	10,000,000.00	0.432%				
Int. Bk Recon CB Supra	-	-	-	-		-	0.000%	-	0.000%				
Microsoft Corp	-	13,750,000.00	-			13,750,000.00	0.594%		0.000%				
Morgan Stanley	10,000,000.00	-	-			10,000,000.00	0.432%		0.000%				
Oracle	-	-	-			-	0.000%		0.000%				
Proctor & Gamble	10,000,000.00	20,000,000.00	-			30,000,000.00	1.295%		0.000%				
Shell Intl Fin	-	15,000,000.00	-			15,000,000.00	0.648%		0.000%				
State Street Corp-FDIC	-					-	0.000%	20,000,000.00	0.864%				
Toyoto Motor Credit	-	10,000,000.00	-			10,000,000.00	0.432%		0.000%				
Wal Mart Stores	-	35,000,000.00	-			35,000,000.00	1.511%	-	0.000%				
Wells Fargo	25,000,000.00	-	-			25,000,000.00	1.080%	-	0.000%				
	65,000,000.00	188,750,000.00	-	-	20,000,000.00	273,750,000.00	11.821%	45,000,000.00	1.943%				

AB: Asset Backed
 CD: Certificate of Deposit
 CN: Corporate Note
 CP: Commercial Paper
 FRN: Floating Rate Note
 TLGP: Temporary Liquidity Guarantee Program

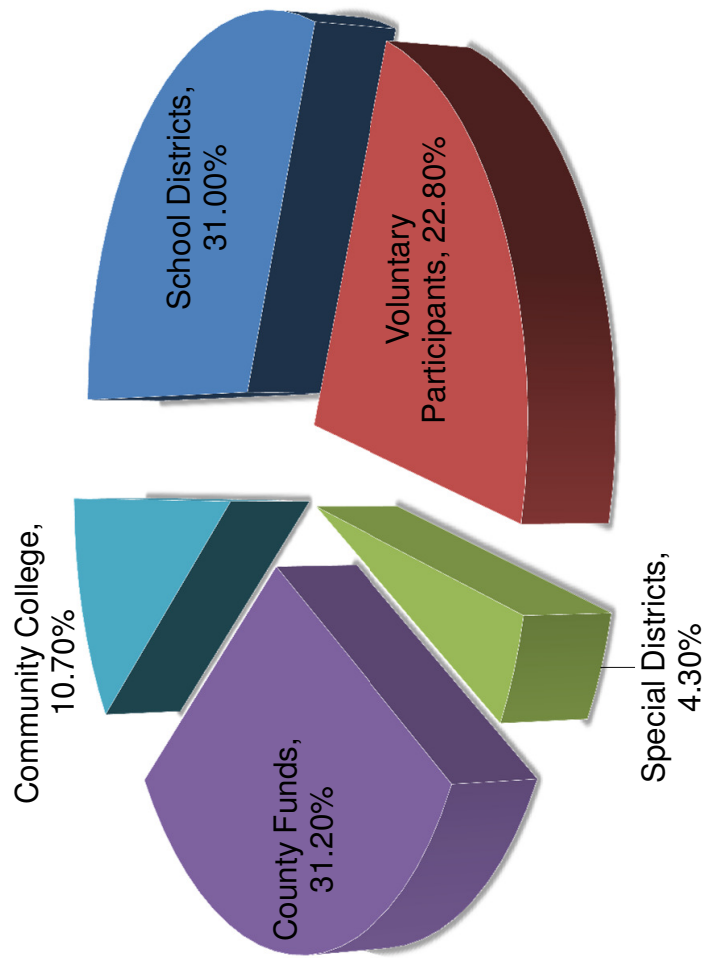
Asset Allocation
San Mateo County Treasurer
As of November 30, 2010



Pooled Funds - Credit Quality
San Mateo County Treasurer
As of November 30, 2010



Pooled Fund Participants
San Mateo County Treasurer
As of September 30, 2010



(IN 000'S)

2011

ROLLING YEAR PROJECTED CASHFLOW

	DECEMBER	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	TOTAL
CASH IN:													
Taxes:													
Secured	\$520,390.7	\$42,135.0	\$44,093.9	\$162,573.0	\$383,744.7	\$6,696.7	\$9,009.0	\$1,695.4	\$0.0	\$21,964.9	\$95,982.9	\$214,926.3	\$1,503,214.5
Unsecured	\$510.3	\$132.8	\$176.7	\$170.2	\$104.6	\$61.5	\$36.8	\$4,433.9	\$60,211.6	\$18,057.1	\$1,197.9	\$635.7	\$85,729.1
Supplemental	\$4,933.9	\$855.5	\$1,173.1	\$2,400.6	\$2,887.7	\$604.0	\$1,888.1	\$1,093.8	\$790.8	\$369.0	\$1,214.9	\$2,609.9	\$20,821.3
Mixed	\$5,156.3	\$2,354.3	\$1,868.5	\$3,867.6	\$7,041.0	\$1,617.9	\$1,674.0	\$6,137.8	\$8,350.7	\$5,656.1	\$6,487.7	\$1,763.7	\$51,975.6
Automatics	\$25,943.1	\$19,184.8	\$22,816.8	\$20,800.9	\$27,183.8	\$23,237.7	\$28,361.1	\$30,881.2	\$22,690.1	\$24,205.4	\$25,511.2	\$28,133.2	\$298,949.3
Automatics - Schools Appt	\$12,062.4	\$18,837.2	\$7,617.8	\$12,703.6	\$10,586.7	\$12,432.9	\$1,548.4	\$1,402.9	\$17,277.8	\$9,449.6	\$20,330.9	\$15,429.9	\$139,660.1
Unscheduled Sub. (Lookbox)	\$23,222.1	\$38,284.9	\$20,690.9	\$32,006.5	\$23,177.7	\$28,003.3	\$45,206.0	\$17,139.4	\$13,103.5	\$35,509.4	\$28,798.8	\$39,610.7	\$344,753.2
Treasurer's Deposit	\$120,453.7	\$76,717.8	\$69,971.3	\$71,517.2	\$120,638.1	\$99,881.2	\$88,649.7	\$69,165.6	\$69,081.7	\$70,691.1	\$77,905.9	\$79,582.4	\$1,014,255.7
Hospitals (Treasurer's Office)	\$6,738.7	\$11,116.9	\$4,401.0	\$3,412.7	\$16,383.3	\$3,273.8	\$1,315.1	\$2,119.6	\$1,499.1	\$611.7	\$553.3	\$479.4	\$51,904.6
Revenue Services	\$336.4	\$298.8	\$264.0	\$355.1	\$314.1	\$284.2	\$288.4	\$246.4	\$239.8	\$228.9	\$252.7	\$263.0	\$3,371.8
Housing Authority	\$11,911.5	\$410.2	\$6,137.0	\$5,569.1	\$5,325.0	\$5,563.7	\$5,352.4	\$5,407.5	\$5,556.2	\$8,126.7	\$5,571.1	\$5,633.8	\$70,564.2
TRAN Deposits-county	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
TRAN Deposits-schools	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$75,404.3	\$0.0	\$0.0	\$7,500.0	\$0.0	\$82,904.3
Bond Proceeds	\$0.0	\$0.0	\$66,000.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$66,000.0
Retirement Deposit	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Coupon Interest	\$1,509.0	\$431.6	\$1,842.5	\$1,213.2	\$1,206.8	\$1,571.6	\$1,441.7	\$868.4	\$1,094.1	\$879.5	\$360.2	\$2,023.7	\$14,442.3
TOTAL CASH IN:	\$733,188.1	\$210,759.8	\$247,053.5	\$316,589.7	\$598,593.5	\$183,228.5	\$184,770.7	\$215,996.2	\$199,895.4	\$195,749.4	\$271,667.5	\$391,093.7	\$3,748,566.0
CASH OUT:													
Tax Apportionments: checks	(\$75,016.0)	(\$3,283.5)	(\$9,868.2)	(\$305.8)	(\$76,978.4)	(\$2,175.5)	(\$7,044.5)	(\$7,630.2)	\$0.0	\$0.0	(\$1,947.8)	(\$11,066.3)	(\$195,326.2)
Outside Withdrawals	(\$64,627.1)	(\$85,992.4)	(\$49,570.1)	(\$39,069.7)	(\$89,020.7)	(\$55,685.7)	(\$79,728.1)	(\$42,443.7)	(\$24,380.6)	(\$26,361.9)	(\$33,975.8)	(\$39,205.2)	(\$630,062.0)
Returned Checks/Miscellaneous	(\$1,694.5)	(\$1,324.3)	(\$719.3)	(\$1,031.5)	(\$1,349.1)	(\$951.1)	(\$886.3)	(\$385.3)	(\$569.0)	(\$596.9)	(\$660.8)	(\$775.3)	(\$10,643.4)
TRAN Payments-county	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
TRAN Payments-schools & GO BANS	(\$289.5)	(\$2,502.2)	(\$66,335.7)	\$0.0	\$0.0	\$0.0	(\$26,353.8)	(\$70,898.7)	\$15,300.0	\$0.0	(\$7,584.5)	\$0.0	(\$158,648.4)
Bond Payments-GO	(\$1,282.7)	(\$20,028.0)	(\$6,810.1)	(\$11,773.1)	(\$2,255.1)	\$0.0	(\$4,187.7)	(\$42,490.3)	(\$21,974.1)	(\$32,848.3)	(\$3,954.0)	\$0.0	(\$147,603.4)
Housing Authority	(\$7,996.4)	(\$5,500.7)	(\$5,350.6)	(\$5,604.2)	(\$5,530.1)	(\$5,537.9)	(\$5,611.9)	(\$5,239.7)	(\$5,594.0)	(\$5,651.4)	(\$5,444.9)	(\$5,286.5)	(\$68,348.3)
Payroll-county	(\$47,459.7)	(\$34,316.4)	(\$34,925.4)	(\$40,021.4)	(\$37,438.5)	(\$33,872.1)	(\$34,723.6)	(\$46,866.3)	(\$39,354.2)	(\$34,259.5)	(\$33,999.9)	(\$34,258.5)	(\$451,495.5)
schools	(\$59,976.3)	(\$30,451.2)	(\$44,114.2)	(\$43,955.2)	(\$45,406.5)	(\$44,541.9)	(\$53,121.8)	(\$22,138.1)	(\$30,318.9)	(\$37,559.4)	(\$44,106.2)	(\$43,147.2)	(\$508,836.9)
retirement	(\$10,920.2)	(\$75,203.6)	(\$10,560.2)	(\$10,651.3)	(\$10,026.4)	(\$11,329.5)	(\$11,065.9)	(\$75,032.1)	(\$11,618.3)	(\$10,298.7)	(\$10,216.2)	(\$10,481.0)	(\$257,423.4)
School Vendors	(\$63,819.8)	(\$69,799.7)	(\$44,878.6)	(\$50,799.6)	(\$43,384.9)	(\$44,851.3)	(\$64,719.8)	(\$55,053.4)	(\$84,393.5)	(\$46,984.1)	(\$61,569.1)	(\$48,257.5)	(\$678,511.3)
Controllers EDP	(\$75,996.8)	(\$60,021.8)	(\$40,452.4)	(\$49,192.2)	(\$48,872.0)	(\$56,012.4)	(\$53,505.1)	(\$51,981.6)	(\$46,470.0)	(\$44,591.7)	(\$52,012.8)	(\$53,796.2)	(\$642,905.0)
SMCCCD	(\$28,421.1)	(\$25,278.6)	(\$17,805.8)	(\$22,171.9)	(\$17,283.1)	(\$11,795.8)	(\$20,630.5)	(\$19,763.0)	(\$17,752.2)	(\$19,915.7)	(\$17,469.1)	(\$16,407.1)	(\$234,693.9)
Other ARS Debits	(\$20,571.4)	(\$25,330.6)	(\$17,482.1)	(\$23,945.9)	(\$26,718.7)	(\$19,975.7)	(\$23,887.6)	(\$26,833.9)	(\$19,819.6)	(\$16,382.0)	(\$16,722.3)	(\$16,484.3)	(\$253,954.1)
TOTAL CASH OUT:	(\$458,051.5)	(\$439,043.0)	(\$348,896.7)	(\$298,521.8)	(\$404,263.5)	(\$286,728.9)	(\$384,967.6)	(\$486,756.3)	(\$286,944.4)	(\$275,449.6)	(\$289,683.4)	(\$279,165.1)	(\$4,238,451.8)
TOTAL ESTIMATED CASH FLOW QUARTERLY CASH FLOW TOTALS	\$275,116.6	(\$228,283.2)	(\$101,843.2)	\$18,067.9	\$194,330.0	(\$103,500.4)	(\$200,196.9)	(\$270,760.1)	(\$87,049.0)	(\$79,700.2)	(\$17,995.9)	\$111,926.6	(\$489,885.8)
**MATURING SECURITIES 11/30/10	\$65,000.0	\$235,070.0	\$96,000.0	\$20,000.0	\$20,000.0	\$94,000.0	\$148,000.0	\$115,000.0	\$30,000.0	\$29,000.0	\$15,000.0	\$45,000.0	\$916,070.0
** Excludes any overnight investment													
Possible Calls 11/30/10	\$110,000.0	\$45,000.0	\$15,000.0	\$10,000.0	\$60,000.0	\$0.0	\$25,000.0	\$0.0	\$5,000.0	\$0.0	\$0.0	\$5,000.0	\$275,000.0
State Funding Removed	\$213,869.0	(\$304,590.1)	(\$152,866.7)	(\$47,443.1)	\$133,361.8	(\$167,174.3)	(\$275,312.4)	(\$320,183.6)	(\$140,120.4)	(\$146,864.6)	(\$92,636.8)	\$28,754.8	(\$1,273,268.4)
- CULATIONS DO NOT INCLUDE CASH BALANCE													

COUNTY OF SAN MATEO

Actual versus Estimate (in 000's)

November 2010

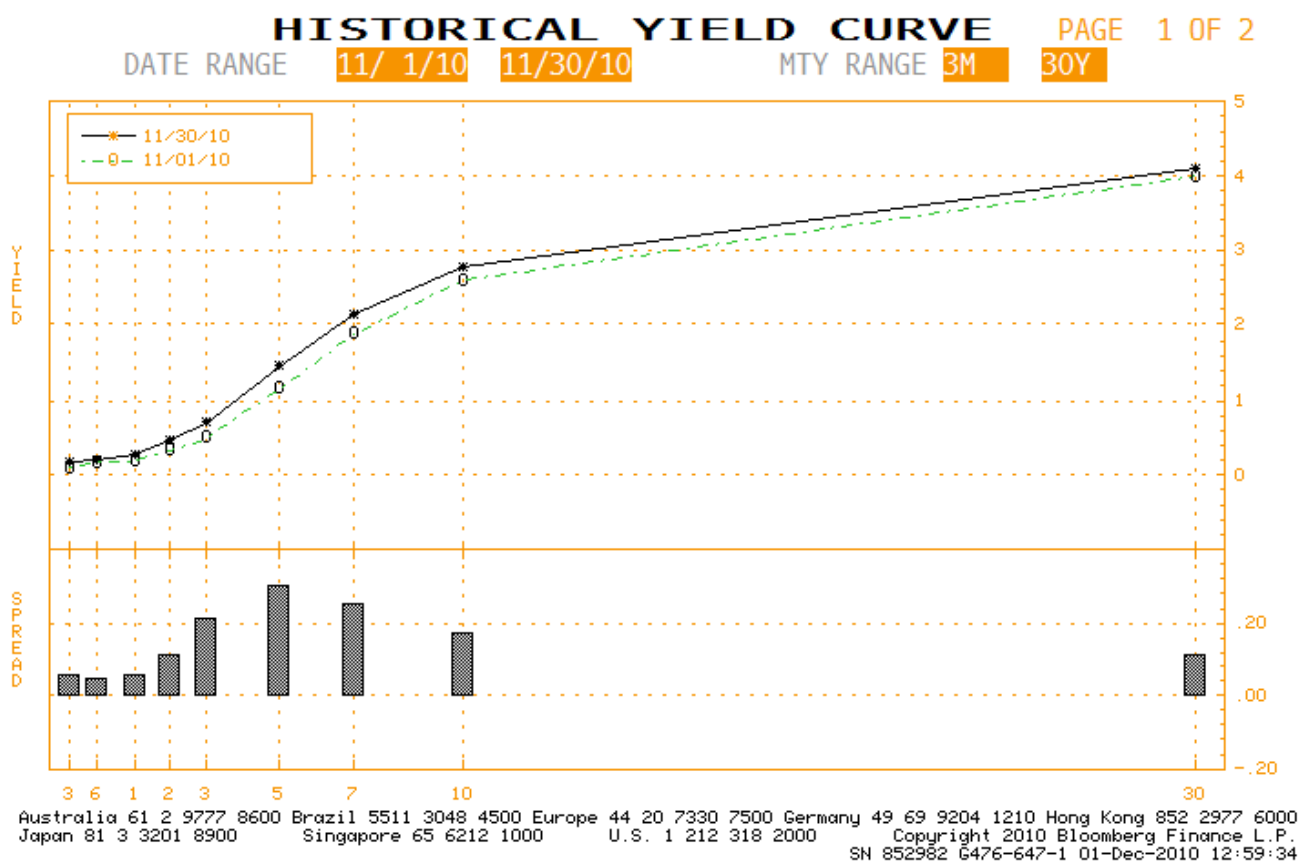
	ACTUAL	ESTIMATE	VARIANCE
CASH IN:			
Taxes:			
Secured	214,928.3	214,904.9	23.4
Unsecured	635.7	638.5	(2.8)
Supplemental	2,609.9	2,616.0	(6.1)
Redemption	1,763.7	1,752.5	11.2
Automatics	43,563.2	43,563.2	0.0
Unscheduled Sub. (Lockbox)	39,610.7	39,629.9	(19.2)
Treasurer's Deposit	99,582.4	99,600.0	(17.6)
Hospitals	479.4	493.9	(14.5)
Revenue Services	263.0	250.6	12.4
Retirement Deposit	15,000.0	15,000.0	0.0
Housing Authority	5,633.8	5,629.4	4.4
TRAN Deposits - County	0.0	0.0	0.0
TRAN Deposits - schools, other	0.0	0.0	0.0
Bond Proceeds	0.0	0.0	0.0
Coupon Interest	2,023.7	2,023.7	0.0
LAIF Wdrl (+)	0.0	0.0	0.0
TOTAL CASH IN:	426,093.8	426,102.6	(8.8)

CASH OUT:			
Tax Apportionments:	(11,066.3)	(11,066.3)	0.0
Outside Withdrawals	(39,205.2)	(39,205.2)	0.0
Return Checks/Miscellaneous	(775.3)	(795.2)	19.9
TRAN Payments - County	0.0	0.0	0.0
TRAN Payments - schools, other	0.0	0.0	0.0
Bond Payments - GO	0.0	0.0	0.0
Housing Authority	(5,286.5)	(5,272.8)	(13.7)
Payroll - county 10031	(34,258.5)	(34,271.0)	12.5
schools 10082	(43,147.2)	(43,138.7)	(8.5)
retirement 10058	(10,481.0)	(10,504.1)	23.1
School Vendors 10074	(48,257.5)	(48,261.0)	3.5
Controller EDP 10090	(53,796.2)	(53,774.9)	(21.3)
SMCCCD 24903	(9,048.7)	(9,058.8)	10.1
SMCCCD 25330	(389.8)	(394.9)	5.1
SMCCCD 25632	(6,969.1)	(6,954.0)	(15.1)
Other ARS Debits	(16,484.3)	(16,502.8)	18.5
LAIF Inv. (-)	0.0	0.0	0.0
TOTAL CASH OUT:	(279,165.6)	(279,199.7)	34.1

NET CASH FLOW	146,928.2	146,902.9	25.3
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<HELP> for explanation.

Msg:G.SCHNEIDER



<HELP> for explanation.

Msg:G.SCHNEIDER

HISTORICAL YIELD CURVE PAGE 2 OF 2
 DATE RANGE 11/ 1/10 11/30/10 MTY RANGE 3M 30Y

	<u>11/01/10</u>	<u>11/30/10</u>	<u>Change</u>
3 MONTH	0.101	0.155	0.0538
6 MONTH	0.145	0.193	0.0477
1 YEAR	0.201	0.257	0.0559
2 YEAR	0.344	0.453	0.1093
3 YEAR	0.489	0.698	0.2086
5 YEAR	1.166	1.466	0.3001
7 YEAR	1.899	2.153	0.2543
10 YEAR	2.623	2.797	0.1738
30 YEAR	4.003	4.110	0.1075

Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2010 Bloomberg Finance L.P.
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APPENDIX H

ACCRETED VALUE TABLES

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