Town of

Hillsborough, California

Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2006

Town of Hillsborough
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2006

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INTRODUCTORY SECTION

TOWN OF HILLSBOROUGH

1600 FLORIBUNDA AVENUE
HILLSBOROUGH
CALIFORNIA
94010-6418

October 30, 2006

To the Honorable Mayor, Members of the City Council,
City Manager and the Citizens of the Town of Hillsborough

Local ordinances and state statutes require that all general-purpose local governments publish a complete set of financial statements at the close of each fiscal year presented in conformity with generally accepted accounting principles (GAAP) in the United States and audited in accordance with generally accepted auditing standards in the United States by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the Town of Hillsborough (the "Town") for the fiscal year ended June 30, 2006.

This report consists of management's representations concerning the finances of the Town of Hillsborough. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the Town has established a comprehensive internal control framework that is designed both to protect the Town's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the Town's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the Town of Hillsborough's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The Town of Hillsborough's financial statements have been audited by Vavrinek, Trine, Day & Co., LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Town of Hillsborough for the fiscal year ended June 30, 2006, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the Town of Hillsborough's financial statements for the fiscal year ended June 30, 2006, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The Town's MD&A can be found immediately following the report of the independent auditors.

Town's Profile

The Town of Hillsborough is a residential community located in San Mateo County, California and incorporated on May 5, 1910 after a popular vote of 60-1 held on April 25, 1910. The Town

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initially included a series of large estates, some of which, over time, were divided into the now existing mix of large estate parcels, acreage and minimum one-half acre lots. The Town is located west of Highway 101 and El Camino Real and east of Highway 280 within a short commute to San Francisco and minutes from San Francisco International Airport. The community location offers excellent weather and a geographic advantage to its residents. Greenbelt canyons are located throughout the community's hilly topography. The community is well known for its trees and rural nature.

The community residents provide a commendable level of support to the municipal government and individual departments through a number of advisory bodies, a community beautification foundation, enhanced communication through a quarterly newsletter, an annual holiday party for the employees, and other forms of recognition. The residents work diligently at maintaining the historical and strong family-based community values. Hillsborough's community based school system receives many awards and consistently provides high scholastic achievement. There are several private schools located in the community.

The Town currently has a land area of approximately 6.23 square miles and a population of 10,965. It is empowered to levy a property tax on both real and personal property located within its boundaries. The Town has also approved a public safety special tax designated for public safety operations and capital expenditures including paramedic and fire automatic aid response programs, and a voter-approved ½% sales tax designated for streets and road purposes.

The Town operates under the council-manager form of government. Policy-making and legislative authority are vested in the governing city council, which consists of a mayor, a vice-mayor and three council members. Council members are elected to overlapping four-year terms, in even numbered years. The Council members select the Mayor and Vice-Mayor every year. The Council is responsible among other things, for passing ordinances, adopting the budget, appointing commission and board members and hiring the City Manager and the City Attorney. The City Manager is responsible for carrying out the policies and ordinances of the governing council, for overseeing the day-to-day operations of the Town, and for appointing the heads of the town departments.

The Town of Hillsborough provides a full range of services, including police and fire protection, construction and maintenance of streets and other infrastructure, sanitation services, delivery of water service and certain recreational activities and other community services.

The annual budget serves as the foundation for the Town of Hillsborough's financial planning and control. The Town's departments are required to submit requests for appropriation to the City Manager who uses these requests as the starting point for developing a proposed budget. Prior to June 30 of each year, the City Manager submits to the City Council a proposed operating budget for review. The Council holds public hearings and a final budget is adopted on or before June 30.

The appropriated budget is prepared by fund, function, and department. The department heads may make transfers of appropriations within a department. The City Manager may transfer budgeted amounts within any fund. Any revisions that alter the total expenditures of any fund must be approved by the City Council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the fund level.

Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund and another major governmental fund, this comparison is presented on pages 48 and 49 as part of the required supplementary information. For governmental funds other than the major funds, with appropriated annual budgets, this comparison is presented in the governmental fund subsection of this report from pages 53 through 55.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the Town operates.

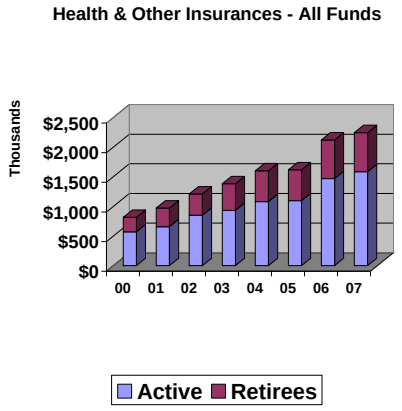
Local economy. The Town which heavily relies on property taxes and construction permit revenues is experiencing the normal change in demographics as older long-term residents are replaced with younger families. This change has continued to provide modest increases to revenues through increased assessed value and residential construction permits. Though, house sales in the area is expected to go down, based on both recent and long-term trends (8.15% average increase in the last 10 years), property tax revenue is projected to continue increasing by 5% annually.

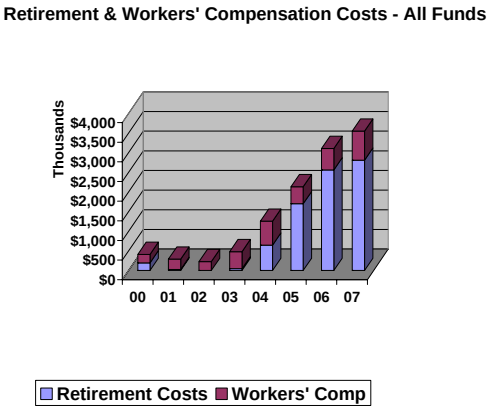
Long-term financial planning.

Like most cities in the peninsula, the town, faced with rising benefits-related personnel costs, has been careful in managing expenses and studying ways in sustaining fiscal viability. Most recently, the Town addressed these challenges by the following preventive measures:

1. Combined fire services with the City of Burlingame with cost savings in excess of $1.8 million a year for the citizens of Burlingame and Hillsborough.
2. Vacant positions were left unfilled and are slowly funded as funds become available.
3. Diversified revenue base by implementing user cost recovery goals ensuring that Town is reimbursed actual costs for services delivered to consumers other than the general public.
4. Deferred regular transfers to fund vehicle and equipment replacement and the unfunded liability for retirees' health insurance costs.
5. Implemented other reductions in various areas and was proactive in seeking additional revenue sources in the forms of grants and combined services with other municipalities.

The Town continues to face rising costs in areas of health insurance, retirement and workers' compensation costs. Like other governments, the Town seeks to find some relief from double digit increases in these areas in the recent years. The graphs below show the dramatic increases of these costs since FY 99/00:





Most recently, the Town's scheduled transfers to the asset replacement fund and the Other Post Employment Benefits (OPEB) fund have been funded only based on available funds.

As in the past, Town management will be closely monitoring these costs to ensure that it continues to be fiscally prudent while maintaining the usual high level of service to its citizens

despite these costs. The Town is committed to an ongoing program of productivity improvements. It is proud of its ability to cut costs without adversely impacting the level of service. With the help of the citizen volunteers that make up the Financial Advisory Committee, it will continue to look for efficiencies in the delivery of services.

Cash management policies and practices. The Town's cash and investments are managed on a pooled basis invested mostly in treasuries and the State's Local Agency Investment Fund (LAIF). The average investment portfolio was $34 million in fiscal year 2005-2006. Investment earnings totaled $1,344,752 for the fiscal year ended June 30, 2006 earning an average return of approximately 3.97%.

Risk management. The town has a limited risk management program for liability and workers' compensation. The Town is in a public-entity risk pool for workers compensation that is self-insured for claims up to $250,000. Claims in excess of $250,000 are insured up to $6.1 million. The Town is self-insured for general liability claims up to $50,000 and claims in excess of the self-insurance retention are insured up to $10 million through another public-entity risk pool.

The risk management program of the Town focuses on proactive identification of exposures to eliminate any potential impacts to public safety and welfare. This is accomplished through the effective monitoring of the Town programs, particularly those departments with higher risk exposures, and by providing clear guidance to correct identified exposure.

Pension and other post-employment benefits. The Town provides retirement benefits through a defined benefit pension plan offered by the public agency portion of the California Public Employees Retirement System (CalPERS), an agent multiple-employer public employee plan. Each year, an independent actuary engaged by CalPERS calculates the amount of the annual contribution that the Town must make to ensure that the plan will be able to fully meet its obligations to retired employees on a timely basis. As a matter of policy, the Town fully funds each year's annual required contribution to the pension plan as determined by the actuary.

The Town also provides post-retirement health benefits pursuant to various Town Employee Associations' Memoranda of Understanding. The benefits vary depending upon a retiree's years of service. As of year-end, there are 81 employees who are receiving this benefit. The Town finances the plan on a pay-as-you-go basis. Long-term costs for the benefits are projected to be in excess of $10 million. The Town has reviewed various means to help reduce the impact of these benefits to its future financial position and when able, provided annual transfers to reserves for future health benefit costs since 2001.

Additional information on the Town's pension arrangement and postemployment benefits can be found in Notes 13 and 14 in the notes to the financial statements.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Hillsborough for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2005. This was the fourth year that the Town has received this prestigious award. In order to be awarded a Certificate of Achievement, the town published an easily readable and efficient organized CAFR. This report satisfied both GAAP and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The Town also received the GFOA's Distinguished Budget Presentation Award for its Operating and Capital Budget for fiscal year 2005-2006. In order to qualify for the Distinguished Budget Presentation Award, the town's budget document was judged to be proficient in several

categories, including as a policy document, a financial plan, an operations guide, and a communications device.

Additionally, the Town was also awarded the California Society of Municipal Finance Officers' (CSMFO) Certificate of Award for Outstanding Financial Reporting for its CAFR for the fiscal year ended June 30, 2005. This is the fifth year that the Town has received this award in recognition for meeting professional standards and criteria in reporting that reflect a high level of quality in the annual financial statements. This award is also valid for a period of one year only and we will be submitting this year's report to CSMFO to determine its eligibility for the certificate.

CSMFO also awarded the Town the Certificate of Award for Excellence in Operational Budgeting for the budget document discussed above.

We wish to extend our appreciation to all the departments who contributed financial information to the report. The preparation of this report could not have been accomplished without the efficient and dedicated services of the entire staff of the Finance Department.

We also like to thank the members of the City Council, the Finance Advisory Committee and the City Manager for their interest and support in planning and conducting the financial operations of the town in a responsible and progressive manner.

Respectfully submitted,

Maria Edna J. Masbad
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Town of Hillsborough California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

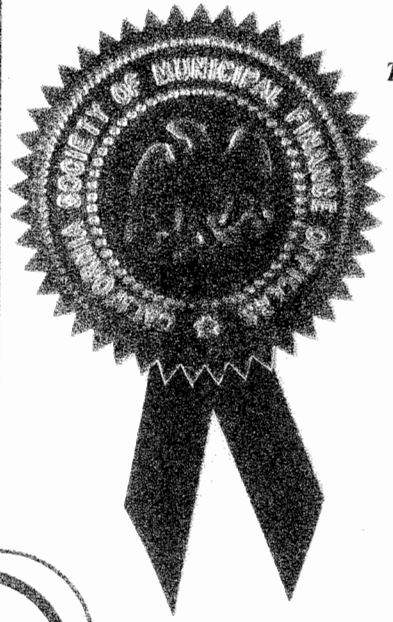
California Society of Municipal Finance Officers

Certificate of Award

Outstanding Financial Reporting 2004-05

Presented to the

City of Hillsborough



This certificate is issued in recognition of meeting professional standards and criteria in reporting which reflect a high level of quality in the annual financial statements and in the underlying accounting system from which the reports were prepared.

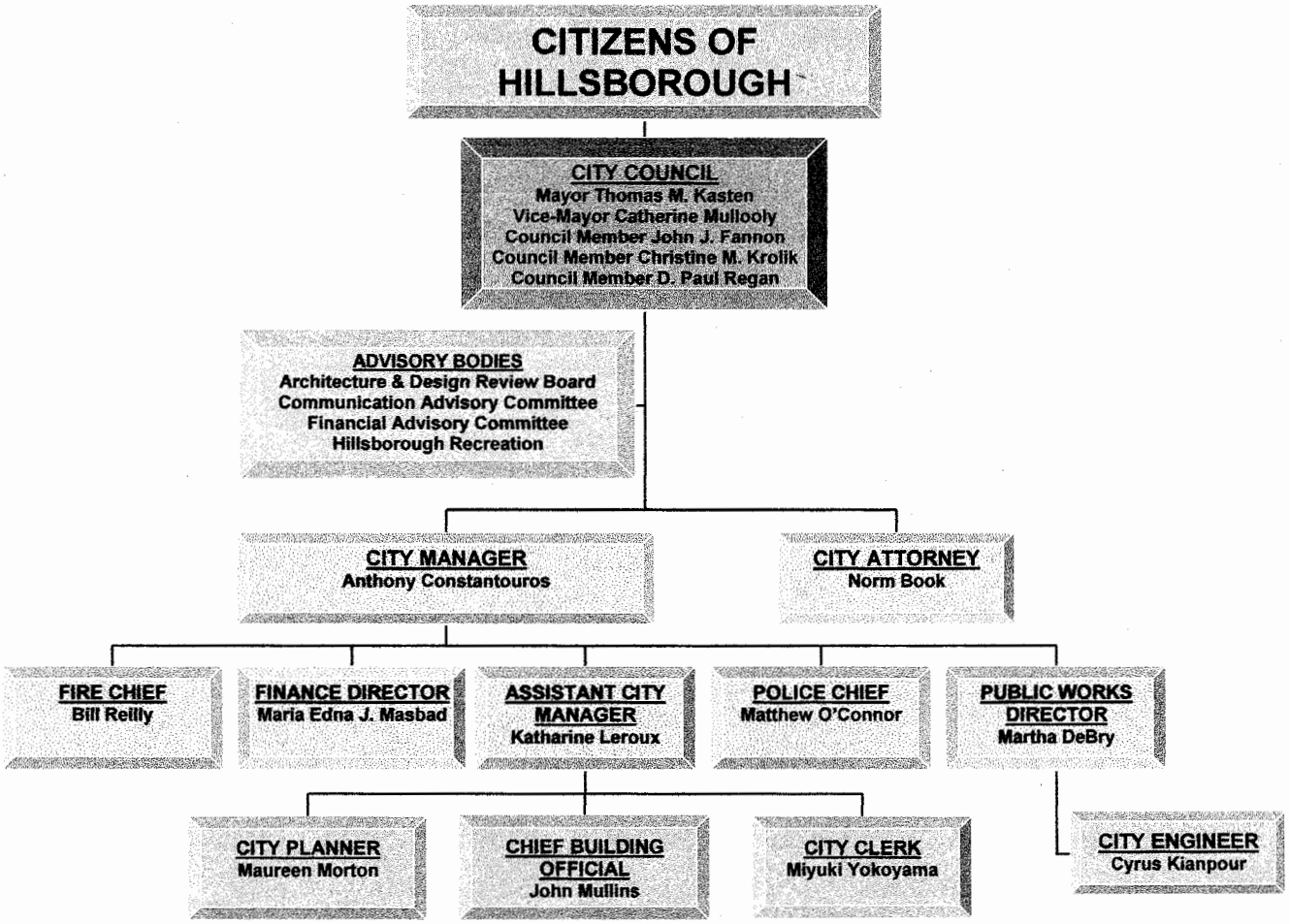
February 24, 2006

William A. Thomas

Bill Thomas, Chair
Professional & Technical Standards Committee

Dedicated to Excellence in Municipal Financial Management

TOWN OF HILLSBOROUGH
ORGANIZATIONAL CHART AND PRINCIPAL OFFICIALS



FIRE
Paramedic
Suppression
Disaster Planning
Prevention
Vegetation Management

FINANCE
General Accounting
Financial Services
Utility Billing
Investments/Cash Management
Payroll
Information Technology
Debt Management

MANAGER'S
Human Resources
Records Management/Elections
Risk Management
PLANNING
Design Review
Environmental Assessment
General Plan
Zoning
BUILDING
Permits
Inspection

POLICE
Patrol
Investigation
Dispatch
Alarm Program
Neighborhood Services
Traffic Safety

PUBLIC WORKS
Streets
Storm Drainage
Water
Wastewater
Municipal Service Center

FINANCIAL SECTION

VAVRINEK, TRINE, DAY
& COMPANY, LLP
Certified Public Accountants

VALUE THE DIFFERENCE

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the Town Council
Town of Hillsborough, California

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Hillsborough, California, (Town) as of and for the year ended June 30, 2006, which collectively comprise the Town's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Town's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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 opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Hillsborough, California, as of June 30, 2006, 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.

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PLEASANTON • PALO ALTO • RANCHO CUCAMONGA • FRESNO • LAGUNA HILLS

In accordance with *Government Auditing Standards,* we have also issued our report dated October 10, 2006 on our consideration of the Town's internal control over financial reporting and 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 considering in assessing the results of our audit.

The Required Supplementary Information, including Management's Discussion and Analysis and budgetary comparison information, and other information, as listed in the table of contents, 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. This Required Supplementary Information is the responsibility of the management of the Town. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and accordingly, we do not express an opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The combining and individual fund financial statements and schedules listed in the table of contents are presented for purpose of additional analysis and are not a required part of the basic financial statements of the Town. These financial statements and schedules are also the responsibility of the management of the Town. Such additional information has been subjected to the auditing procedures applied in our audit of the basic financial statements, and in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

The scope of our audit did not include the introductory section and statistical schedules listed in the table of contents and we do not express an opinion on them.

Vavrinek, Trine, Day & Co. LLP.

Pleasanton, California
October 10, 2006

Town of Hillsborough
Management's Discussion and Analysis

As management of the Town of Hillsborough, we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town of Hillsborough for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1- 5 of this report.

Financial Highlights

- The assets of the Town exceed its liabilities at the close of 2005-2006 fiscal year by $54,318,795 *(net assets)*. Of this amount, $28,397,839 *(unrestricted net assets)* may be used to meet the Town's ongoing obligations to citizens and creditors.
- The Town's total net assets increased by $1,692,273, $1,562,599 of which from governmental activities and the remaining $129,674 from enterprise operations. Increase in net assets by approximately $1.7 million in governmental activities resulted from better than expected revenues and not filling vacant positions ($430,800), approximately $852,000 by which capital outlays exceeded depreciation for the year and around $275,000 net revenues of the internal service fund from governmental activities.
- As of June 30, 2006, the Town's governmental funds reported combined ending fund balances of $10,601,294 - a 4.2% increase over the prior year. Except for $10,896 these fund balances are *available for spending* at the Town's discretion (*unreserved fund balances).*
- The Town's general fund reported an increase of $689,000 in fund balance. At the end of the current fiscal year, unreserved fund balance for the general fund was $9,802,887 up from $9,114,131 in 2004-2005. The fund balance reserve is approximately 60 percent of total general fund expenditures.
- Water consumption was down for the second year in a row with 14% and 3% decrease in consumption in 2005 and 2006 respectively; hence, revenues projection was short by 6% for the year. The 11% increase in revenues resulting from the rate increase, covered a similar increase in expenses leading to a $207,000 decrease in net assets for the water operations. Sewer operations broke even with a modest increase in net assets in the amount of $322,000. Debt service coverage was $2.13 of net revenues for every $1 of debt service. Debt covenant requires $1.20 coverage.
- On April 2006, the Town issued $12,000,000 of variable rate certificates of participation to finance various water and wastewater projects pursuant to its capital improvement plan. It has also entered into a swap agreement for above issue consistent with its debt policy as fully discussed on page 19 of this report.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements made up of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements such as this management's discussion and analysis.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Town's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Town of Hillsborough's assets and liabilities, with the difference between the two, reported as *net assets.* Over time, increases or

decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The *statement of activities* presents information showing how the Town's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows.* Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. earned but unused vacation leave).

Both of these government-wide financial statements distinguish functions of the Town of Hillsborough that are principally supported by taxes and intergovernmental revenues *(governmental activities)* from other functions that are intended to recover all or a significant portion of their costs through user fees and charges *(business-type activities).* The governmental activities of the Town include general government, public safety, community services and streets. The business-type activities of the Town include the water and sewer operations.

The government-wide financial statements can be found on pages 21-22 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities of objectives. The Town of Hillsborough, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town of Hillsborough can be divided into two categories: governmental funds and proprietary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources,* as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financials statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities.*

The Town maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund and the police and fire special tax fund which are considered to be major funds. Data from the other four governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The Town of Hillsborough adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 23-25 of this report.

Proprietary funds. The Town of Hillsborough maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town uses enterprise funds to account for the

water and sewer operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the Town of Hillsborough's various functions. The Town uses an internal service fund to account for the replacement of the fleet and other equipments. Because this service predominantly benefits governmental rather than business-type function, it has been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the internal service fund and the water and sewer operations, with the latter being considered major funds.

The basic proprietary fund financial statements can be found on pages 26-28 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 29-46 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the Town of Hillsborough's general fund budgetary schedule and progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on pages 47-50 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining statements and individual fund schedules can be found on pages 51-59 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Town's assets exceeded liabilities by $54,318,795 at June 30, 2006.

TOWN OF HILLSBOROUGH'S NET ASSETS

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	$16,819,344	$14,898,872	$33,156,691	$24,604,367	$49,976,035	$39,503,239
Capital assets	10,337,671	9,522,619	41,289,738	37,407,437	51,627,409	46,930,056
Total assets	27,157,015	24,421,491	74,446,429	62,011,804	101,603,444	86,433,295
Long-term liabilities	1,143,579	1,250,804	39,823,731	28,305,526	40,967,310	29,556,330
Other liabilities	3,422,377	2,142,227	2,894,962	2,108,216	6,317,339	4,250,443
Total liabilities	4,565,956	3,393,031	42,718,693	30,413,742	47,284,649	33,806,773
Net assets:						
Invested in capital assets, Net of related debt	10,134,525	9,118,260	15,036,431	17,504,142	25,170,956	26,622,402
Restricted		20,261	750,000	500,000	750,000	520,261
Unrestricted	12,456,534	11,889,939	15,941,305	13,593,920	28,397,839	25,483,859
Total net assets	$22,591,059	$21,028,460	$31,727,736	$31,598,062	$54,318,795	$52,626,522

By far the largest portion of the Town's net assets (46 percent) reflects its investment in capital assets (e.g. land, buildings, machinery, equipment and infrastructure) less any related debt used to acquire those assets that is still outstanding. The Town of Hillsborough uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town of Hillsborough's net assets (1.4 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* ($28,397,839) may be used to meet the Town's ongoing obligations to citizens and creditors.

At June 30, 2006, the Town of Hillsborough is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

The Town's net assets increased $1,692,273. Net assets increased by approximately $1.5 million in governmental activities; the remaining $129,674 from enterprise operations. Increase in net assets in governmental activities resulted from better than expected revenues and not filling vacant positions ($430,800); approximately $852,000 by which capital outlays exceeded depreciation for the year; and around $275,000 net revenues of the internal service fund from governmental activities.

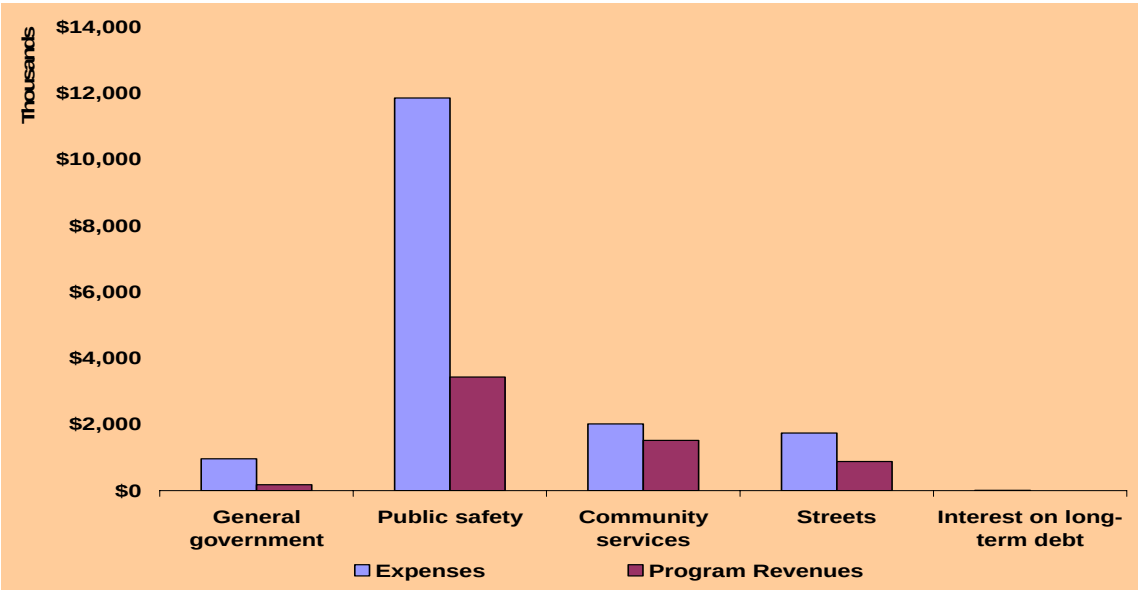
Governmental activities. Governmental activities increased the Town of Hillsborough's net assets by $1,562,599 accounting for 92 percent of the total growth in the net assets of the Town.

TOWN OF HILLSBOROUGH'S CHANGES IN NET ASSETS

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
REVENUES						
Program revenues:						
Charges for services	$ 2,437,164	$ 2,351,693	$11,696,005	$10,983,732	$14,133,169	$13,335,425
Operating grants and Functional taxes	3,424,755	2,973,402			3,424,755	2,973,402
Capital grants, contributions & Other Non-Operating	151,000		88,206	1,175,603	239,206	1,175,603
General revenues:						
Property taxes	8,279,497	7,863,429			8,279,497	7,863,429
Other taxes	2,602,832	2,277,574			2,602,832	2,277,574
Gain on sale of assets		9,932				9,932
Investment earnings	416,927	298,670	798,270	391,634	1,215,197	690,304
All others	825,774	700,775			825,774	700,775
Total revenues	18,137,949	16,475,475	12,582,481	12,550,969	30,720,430	29,026,444
EXPENSES						
General government	961,498	849,893			961,498	849,893
Public safety	11,841,571	10,408,830			11,841,571	10,408,830
Community services	2,016,079	2,155,271			2,016,079	2,155,271
Streets	1,741,566	1,512,620			1,741,566	1,512,620
Interest on long-term debt	14,636	22,716			14,636	22,716
Water			7,132,750	6,387,594	7,132,750	6,387,594
Sewer			5,320,057	4,655,389	5,320,057	4,655,389
Total expenses	16,575,350	14,949,330	12,452,807	11,042,983	29,028,157	25,992,313
Increase in net assets	1,562,599	1,526,145	129,674	1,507,986	1,692,273	3,034,131
Net assets–July 1, 2005	21,028,460	19,502,315	31,598,062	30,090,076	52,626,522	49,592,391
Net assets–June 30, 2006	$22,591,059	$21,028,460	$31,727,736	$31,598,062	$54,318,795	$52,626,522

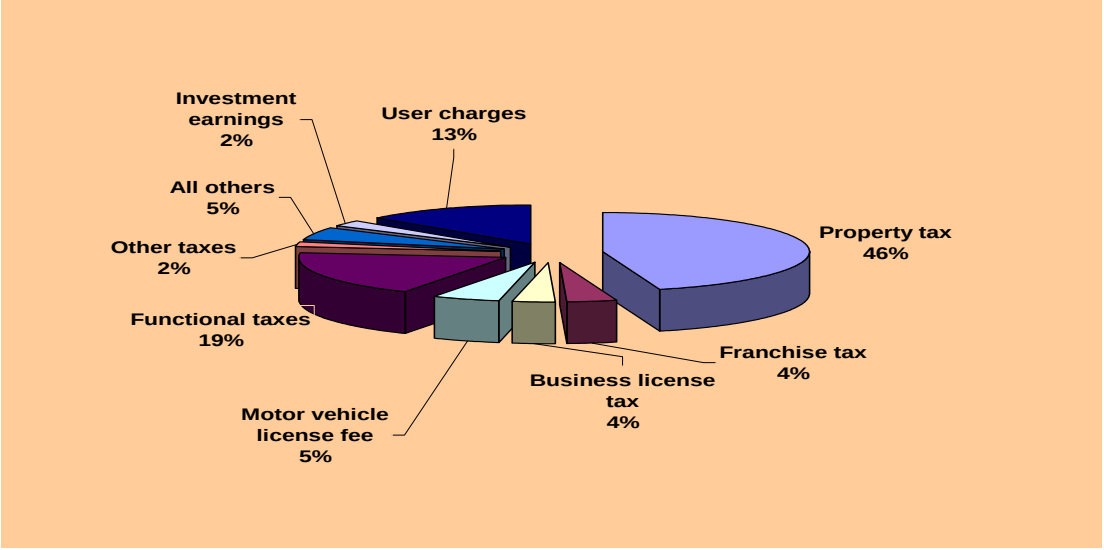
The graph below breaks down expenses by function and compares them to corresponding program revenues for governmental activities.

Expenses and Program Revenues – Governmental Activities



The following breaks down revenues by source.

Revenues by Source – Governmental Activities



Approximately $875,000 of the change in governmental net assets resulted from the General Fund's operations where revenues increased by 5.5% over the previous year. However, expenditures increased by 9% or approximately $1.4 mainly from personnel related costs.

The table below summarizes the major revenue increases in the General Fund during the year:

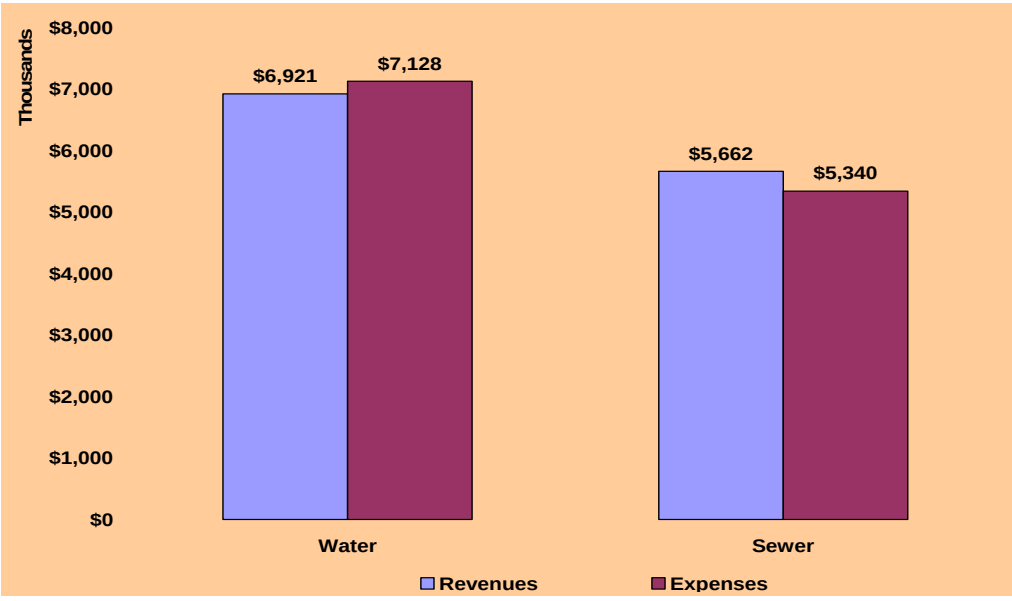
REVENUES	05/06	04/05	Increase	%
Property taxes	$ 8,279,497	$ 7,863,429	$ 416,068	5%
ERAF refund	623,026	422,229	200,797	48%
Vehicle license fee	963,199	705,311	257,888	37%
Total	$ 9,865,722	$ 8,990,969	$ 874,753	10%

Budget projections for almost all revenue segments were met or exceeded with the Town realizing 3% more of total budget. This year's refund from the Educational Revenue Augmentation Fund (ERAF) included the return of previous years' revenues that the County held back in previous years. The increase in the vehicle license fee included a one-time payment ($186,000) of these revenues borrowed by the State in fiscal year 2003/04.

General fund expenditures increased by 11%, mostly from personnel related costs:

EXPENDITURES	05/06	04/05	Increase	%
Salaries	$7,996,467	$7,711,009	$285,458	4%
Overtime	876,916	631,748	245,168	39%
Medicare/FICA	296,634	275,197	21,437	8%
Retirement	2,243,859	1,534,816	709,043	46%
Insurances	1,101,405	924,489	176,916	19%
Retirees' health insurance	538,101	472,235	65,866	14%
Workers compensation	549,664	395,028	154,636	39%
All others	622,400	550,720	71,680	13%
Total personnel costs	14,225,446	12,495,242	1,730,204	14%
Materials & services	3,539,772	3,311,893	227,879	7%
Reimbursements from other programs	(2,097,820)	(1,874,630)	(223,190)	12%
Transfers	527,825	694,110	(166,285)	-24%
Total	$16,195,223	$14,626,615	$1,568,608	11%

Business-type activities. Business-type activities of the Town resulted to a modest increase in net assets of approximately $130,000. Water consumption was down for the second year in a row with 14% and 3% decrease in consumption in 2005 and 2006 respectively; hence, revenues projection was short by 6% for the year. The 11% increase in revenues resulting from the rate increase, covered a similar increase in expenses leading to a $207,000 decrease in net assets for the water operations. Sewer operations broke even with a modest increase in net assets in the amount of $322,000. Debt service coverage was $2.13 of net revenues for every $1 of debt service. Debt covenant requires $1.20 coverage.



Financial Analysis of the Government's Funds

As noted earlier, the Town of Hillsborough uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Town of Hillsborough's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Town's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of the Town's net resources available for spending at the end of a fiscal year.

As of June 30, 2006, the Town's governmental funds reported combined ending fund balances of $10,601,294, up $430,863 from the previous year. $9,791,991 of this amount constitute *unreserved – undesignated fund balance,* which is available for spending at the Town's discretion, all of which is in the general fund, the Town's chief operating fund. The remainder of the fund balance is either *reserved* or *designated* to indicate that it is not available for new spending as it has already been committed for a variety of restricted purposes.

The Town's general fund reserve balance increased by $688,756 during the current fiscal year. Town realized an increase in revenues of approximately $875,000 from property taxes, ERAF refund and the motor vehicle license fee. However, expenditures increased by $1,569,000 mainly from personnel-related costs.

Proprietary funds. The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but with more details.

Unrestricted net assets of the Water fund at the end of the year amounted to $9,952,599 up from $9,403,171 and Sewer fund unrestricted net assets increased to $5,685,656 from $3,902,218 mostly from increase in capital assets. Factors concerning the finances of these two funds have already been addressed in the discussion of the business-type activities.

General Fund Budgetary Highlights

The chart below summarizes the budget variances:

	ORIGINAL BUDGET	REVISED BUDGET	ACTUAL	VARIANCE
SOURCES				
Taxes	$9,934,390	$10,137,722	$10,361,630	$223,908
Permits	980,236	886,017	973,812	87,795
Intergovernmental	836,199	1,057,509	1,150,207	92,698
Service charges	1,080,571	1,051,854	1,149,151	97,297
Fines and forfeitures	29,500	125,250	106,319	(18,931)
All others	405,666	453,310	514,300	60,990
Operating transfers in	2,618,556	2,608,556	2,628,560	20,004
Total	15,885,118	16,320,218	16,883,979	563,761
USES				
General government	729,372	820,894	799,102	21,792
Public safety	11,644,437	11,896,196	11,740,930	155,266
Community services	2,030,471	2,072,753	2,037,695	35,058
Streets	1,379,583	1,429,120	1,516,241	(87,121)
Operating transfers out	101,255	101,255	101,255	
Total	15,885,118	16,320,218	16,195,223	124,995
GRAND TOTAL				$688,756

The positive variances on the sources of funds came from supplemental property taxes ($214,000) distributed towards the end of the year. Similarly, there was a surge of building and

grading permits together with planning and building plan check fees ($135,400) received during May and June of the fiscal year. The Town also received reimbursements from the Office of Emergency Relief for the winter windstorm and the Katrina disaster response that were not budgeted. Lastly, due to efforts to get more residents to sign up for the alarm monitoring services, Town earned $72,000 more revenues than budgeted for this line item.

On the Expenditures side, a Police Officer position was unfilled through most of the fiscal year. The Streets Department exceeded appropriations for $87,121 from unexpected increased activities, higher utilities, park maintenance costs and need for outside professional services. This shortfall was covered by the expenditures savings from the rest of the General Fund departments.

Capital Asset and Debt Administration

Capital assets. The Town of Hillsborough's investment in capital assets for its governmental and business type activities as of June 30, 2006, amounts to $51,627,409 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, roads, highways, and bridges.

Major capital asset events during the year included the following:

Water Main Replacement Phase IV – This project will include 3 miles of new water mains. Town expended approximately $2.3 million in fiscal year 2005/06.

El Arroyo Water Tank Replacement – This project will replace 2-500,000 gallon water tanks at El Arroyo Tank site and construct additional mains on Eucalyptus, San Raymundo and El Arroyo. Costs incurred in fiscal year 2005/06 amounted to $385,000. Project is expected to be finished by July 2007.

Sanitary Sewer Lining Phase II - This project rehabilitates sewer lines identified in the video inspection project with a target completion date of October 2006. Costs through June 30, 2006 were approximately $585,000.

Sanitary Sewer Cleaning & Inspection Phase III – This project completed on March 2006 cleaned and inspected 21,000 linear feet of mains at a cost of $377,000.

Shady Creek Retaining Wall/Erosion Repair - This project repaired failed walls and slopes to protect a sanitary sewer main located in an easement at a cost of $514,000.

Pinehill/Ralston Sewer Relocation – This project installed a new sewer main on Pinehill between Ralston and Robin to divert flows from two sewer mains currently located in steep easement areas for approximately $242,000.

Main Cleaning & Inspection Phase IV (Cherry Creek Easement) – This project cleaned 6,800 linear feet of main in a difficult to access easement. Cost was $405,000.

Easton Creek Sewer Rehabilitation – This project consists of a reimbursement paid to the City of Burlingame for the repair of the Easton Creek Sewer main, and other contiguous sewer mains that serve Town. The rehabilitation was needed to prevent sanitary sewer overflows. Contribution to Burlingame was for $550,000.

Street Pavement Maintenance and Rehabilitation Project – Street resurfacing for approximately $860,000 was completed during the year.

Vista Park Renovation - This park renovation expected to be completed in October 2006, incurred costs of approximately $470,000 through June 2006.

TOWN OF HILLSBOROUGH'S CAPITAL ASSETS
(Net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	$ 1,456,560	$ 1,456,560			$ 1,456,560	$ 1,456,560
Land improvements	1,673,831	1,302,403			1,673,831	1,302,403
Buildings	669,794	704,429	$ 103,728	$ 115,409	773,522	819,838
Machinery and equipment	1,545,651	1,676,363	460,317	489,088	2,005,968	2,165,451
Infrastructure	4,991,835	4,382,864			4,991,835	4,382,864
Water and sewer lines			40,725,693	36,802,940	40,725,693	36,802,940
Total	$10,337,671	$ 9,522,619	$41,289,738	$37,407,437	$51,627,409	$46,930,056

Additional information on the Town of Hillsborough's capital assets can be found in Note 5 starting from page 37 of this report.

Long-term debt.

On April 2006, the Town issued $12,000,000 of variable rate certificates of participation (COPs) (water and sewer system projects) 2006 Series A to finance various water and wastewater projects consistent with the enterprise's ten year capital improvement plan. The debt bears variable rates with principal payments payable annually at June 1, 2009 through 2035. Earlier on December 27, 2005, the Town entered into a "forward starting 68% of LIBOR interest rate swap" agreement converting the $12,000,000 variable-rate COPs discussed above, to a synthetic fixed rate of 3.507% until they mature on June 1, 2035. The Town received ratings of AA+ from Fitch and AA from Standard & Poor's for the above bond issue.

At June 30, 2006, the Town of Hillsborough had total debt outstanding excluding compensated absences in the amount of $40,403,146.

TOWN OF HILLSBOROUGH'S OUTSTANDING DEBT
(Certificates of Participation and Capital Lease Obligations)

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Certificates of participation			$40,200,000	$28,700,000	$40,200,000	$28,700,000
Capital lease obligations	$203,146	$404,359			203,146	404,359
Total	$203,146	$404,359	$40,200,000	$28,700,000	$40,403,146	$29,104,359

Total debt paid during the year was $701,213. The certificates of participation recorded in the business-type activities were issued through the Public Improvement Corporation to finance the acquisition, construction and installation of certain improvements to the water and sewer systems. The debt is secured by a pledge of the net revenues of the water and sewer funds.

The Town of Hillsborough maintains ratings of AA from Standard & Poor's and AA+ from Fitch for the older bond issues.

Additional information on the Town's long-term debt can be found in Note 9 on pages 40-42 of this report.

Economic Factors and Future Challenges

As in the most recent years, the Town's capital improvement plan program continues to be a major component of its financial picture.

The Town continues to face rising costs in the areas of health insurance, retirement and workers compensation costs. Like other governments, the Town seeks to find some relief from double-digit increases in these areas. As in the past, Town management will be closely monitoring these costs to ensure that it continues to be fiscally prudent while maintaining the usual high level of service to its citizens despite these higher costs. The Town is committed to an ongoing program of productivity improvements. It is proud of its ability to cut costs without adversely impacting the level of service. It will continue to look for efficiencies in the delivery of services and doing more with less.

Requests for Information

This financial report is designed to provide a general overview of the Town of Hillsborough's finances for all those with an interest in the Town's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, Town of Hillsborough, 1600 Floribunda Avenue, Hillsborough, CA 94010.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

TOWN OF HILLSBOROUGH
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments:			
Town Treasury	$ 16,367,934	$ 16,071,322	$ 32,439,256
Trustee (Restricted)		13,946,693	13,946,693
Receivables, net of estimated uncollectibles:			
Accounts	204,902	1,785,435	1,990,337
Interest	186,756	142,379	329,135
Property tax receivable from County	294,343		294,343
Internal balances	(303,050)	303,050	
Due from other governments	57,563	99,268	156,831
Prepaids	10,896	-	10,896
Supplies		60,909	60,909
Cost of bond issuance (net of accumulated amortization)		747,635	747,635
Capital assets (net of accumulated depreciation):			
Land	1,456,560		1,456,560
Land improvements	1,673,831		1,673,831
Buildings	669,794	103,728	773,522
Machinery and equipment	1,545,651	460,317	2,005,968
Infrastructure	4,991,835		4,991,835
Water and sewer lines		40,725,693	40,725,693
Total Assets	27,157,015	74,446,429	101,603,444
LIABILITIES			
Accounts payable and other current liabilities	493,912	1,404,211	1,898,123
Accrued payroll liabilities	210,366		210,366
Deposits	1,843,839	798,836	2,642,675
Uninsured claims	12,783	38,054	50,837
Deferred revenue (unearned)	657,912		657,912
Accrued interest payable	419	153,861	154,280
Current portion of long-term debt	203,146	500,000	703,146
Non-current liabilities:			
Due in more than one year	1,143,579	39,823,731	40,967,310
Total Liabilities	4,565,956	42,718,693	47,284,649
NET ASSETS			
Invested in capital assets, net of related debt	10,134,525	15,036,431	25,170,956
Restricted for:			
Debt Service		750,000	750,000
Unrestricted	12,456,534	15,941,305	28,397,839
Total Net Assets	$ 22,591,059	$ 31,727,736	$ 54,318,795

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

TOWN OF HILLSBOROUGH
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Functions/Programs	Expenses	Charges for Services	Operating Grants and Functional Taxes	Capital Grants Contributions and other Non-Operating Rev	Net (Expense) Revenues and Changes in Net Assets: Governmental Activities	Net (Expense) Revenues and Changes in Net Assets: Business-type Activities	Total
Governmental Activities:							
General government	$ 961,498	$ 179,430			$ (782,068)		$ (782,068)
Public safety	11,841,571	664,199	$ 2,763,241		(8,414,131)		(8,414,131)
Community services	2,016,079	1,521,821			(494,258)		(494,258)
Streets	1,741,566	71,714	661,514	$ 151,000	(857,338)		(857,338)
Interest on long-term debt	14,636				(14,636)		(14,636)
Total governmental activities	16,575,350	2,437,164	3,424,755	151,000	(10,562,431)		(10,562,431)
Business-type Activities:							
Water	7,132,750	6,471,820				$ (660,930)	(660,930)
Sewer	5,320,057	5,224,185		88,206		(7,666)	(7,666)
Total business-type activities	12,452,807	11,696,005		88,206		(668,596)	(668,596)
Total	$ 29,028,157	$ 14,133,169	$ 3,424,755	$ 239,206	(10,562,431)	(668,596)	(11,231,027)
General Revenues:							
Property tax					8,279,497		8,279,497
Property transfer tax					276,368		276,368
Franchise tax					672,946		672,946
Sales Tax					54,694		54,694
Motor vehicle license tax					963,367		963,367
Business license tax					635,457		635,457
All others					825,774		825,774
Unrestricted investment earnings					416,927	798,270	1,215,197
Total general revenues					12,125,030	798,270	12,923,300
Change in net assets					1,562,599	129,674	1,692,273
Net assets - beginning					21,028,460	31,598,062	52,626,522
Net assets - ending					$ 22,591,059	$ 31,727,736	$ 54,318,795

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

FUND FINANCIAL STATEMENTS

TOWN OF HILLSBOROUGH
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2006

	General Fund	Police and Fire Special Tax Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and investments:				
Town Treasury	$ 12,257,806	$	$ 801,540	$ 13,059,346
Receivables, net of estimated uncollectibles:				
Accounts	175,577		29,325	204,902
Interest	186,756			186,756
Property tax receivable from County	294,343			294,343
Due from other governments			57,563	57,563
Due from other funds	17,153			17,153
Prepaids	10,896			10,896
Total Assets	$ 12,942,531	$	$ 888,428	$ 13,830,959
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and other current liabilities	$ 414,744	$	$ 72,868	$ 487,612
Accrued payroll	210,366			210,366
Due to other funds			17,153	17,153
Deposits payable	1,843,839			1,843,839
Uninsured claims	12,783			12,783
Deferred revenue (unearned)	657,912			657,912
Total Liabilities	3,139,644		90,021	3,229,665
Fund Balances:				
Reserved for prepaids and other purposes	10,896			10,896
Unreserved - designated and reported in:				
Special revenue funds - streets projects			87,141	87,141
Special revenue funds - police projects			134,546	134,546
Capital projects fund - facilities projects			576,720	576,720
Unreserved - undesignated	9,791,991			9,791,991
Total fund balances	9,802,887		798,407	10,601,294
Total Liabilities and Fund Balances	$ 12,942,531	$	$ 888,428	

Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	9,120,331
The internal service fund is used by the Town to charge the costs of fleet and other equipment management and the management information systems to individual funds. The assets and liabilities of the internal service fund are included in the governmental activities in the statement of net assets.	4,020,070
Long-term liabilities, including capitalized leases, are not due and payable in the current period and therefore are not reported in the funds.	(1,150,636)
Net assets of governmental activities	$ 22,591,059

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

TOWN OF HILLSBOROUGH
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	General Fund	Police and Fire Special Tax Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:				
Taxes:				
Property	$ 8,279,497			$ 8,279,497
Public safety special tax		$ 2,233,132		2,233,132
Franchise taxes	672,946			672,946
Business license tax	635,457			635,457
All others	773,730			773,730
Permits	973,812			973,812
Intergovernmental	1,150,207		$ 980,380	2,130,587
Service charges	1,149,151	145,428		1,294,579
Fines and forfeitures	106,319			106,319
Investment earnings	289,641		32,273	321,914
Miscellaneous	224,659		237,845	462,504
Total Revenues	14,255,419	2,378,560	1,250,498	17,884,477
EXPENDITURES:				
Current:				
General government	799,102		42,809	841,911
Public safety	11,740,930		35,296	11,776,226
Community services	2,037,695			2,037,695
Streets	1,516,241		5,894	1,522,135
Capital outlay	-		1,426,647	1,426,647
Total Expenditures	16,093,968		1,510,646	17,604,614
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(1,838,549)	2,378,560	(260,148)	279,863
OTHER FINANCING SOURCES (USES):				
Transfers in	2,628,560		666,995	3,295,555
Transfers out	(101,255)	(2,378,560)	(664,740)	(3,144,555)
Total Other Financing Sources (Uses)	2,527,305	(2,378,560)	2,255	151,000
NET CHANGE IN FUND BALANCES	688,756		(257,893)	430,863
BEGINNING FUND BALANCES	9,114,131		1,056,300	10,170,431
ENDING FUND BALANCES	$ 9,802,887	$	$ 798,407	$ 10,601,294

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

TOWN OF HILLSBOROUGH
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Amounts reported for governmental activities in the statement of activities (page 22) are different because:

Net change in fund balances - total governmental funds (page 24)	$	430,863
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over the estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		851,618
The issuance of long-term debt (e.g. leases) provides current financial resources to governmental funds, while the repayment of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the effect of these items in the treatment of long-term debt.		13,494
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		(95,809)
The internal service fund is used by the Town to charge the costs of fleet and other equipment management and management information systems to individual funds.		87,836
The net revenue of certain activities of the internal service fund is reported with governmental activities.		274,597
Change in net assets of governmental activities (page 22)	$	1,562,599

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

TOWN OF HILLSBOROUGH
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006

	Business-type Activities - Enterprise Funds					Governmental Activities -
	Water		Sewer		Total	Internal Service
	Current Year	Prior Year	Current Year	Prior Year	Current Year	Fund
ASSETS						
Current Assets:						
Cash and investments:						
Town Treasury	$ 9,779,958	$ 8,822,365	$ 6,291,364	$ 2,725,062	$ 16,071,322	$ 3,308,588
Trustee (Restricted)	6,065,557	2,744,564	7,881,136	6,052,141	13,946,693	
Receivables, net of estimated uncollectibles:						
Accounts	1,663,058	1,346,247	122,377	10,730	1,785,435	
Interest	70,271	83,359	72,108	61,205	142,379	
Due from other governments			99,268	1,771,198	99,268	
Prepaids		16,800		31,114		
Supplies	60,909	55,887			60,909	
Total current assets	17,639,753	13,069,222	14,466,253	10,651,450	32,106,006	3,308,588
Noncurrent assets:						
Cost of bond issuance (net of accumulated amortization)	297,054	199,941	450,581	395,223	747,635	
Capital assets:						
Buildings and improvements	292,176	292,176	49,161	49,161	341,337	
Machinery and equipment	585,548	552,767	500,005	473,642	1,085,553	2,526,630
Water and sewer lines	50,613,503	47,583,524	42,293,752	39,036,239	92,907,255	
Less accumulated depreciation	(32,193,316)	(30,893,541)	(20,851,091)	(19,686,531)	(53,044,407)	(1,309,290)
Total capital assets net of accumulated depreciation	19,297,911	17,534,926	21,991,827	19,872,511	41,289,738	1,217,340
Total noncurrent assets	19,594,965	17,734,867	22,442,408	20,267,734	42,037,373	1,217,340
Total Assets	37,234,718	30,804,089	36,908,661	30,919,184	74,143,379	4,525,928
LIABILITIES						
Current liabilities:						
Accounts payable	641,185	289,980	763,026	553,540	1,404,211	6,300
Deposits	741,195	484,445	57,641	102,454	798,836	
Uninsured claims	30,853	5,000	7,201	63,228	38,054	
Accrued interest payable	60,027	38,304	93,834	71,265	153,861	362
Certificates of participation - current	178,702	178,702	321,298	321,298	500,000	
Capital leases payable - current						196,146
Total current liabilities	1,651,962	996,431	1,243,000	1,111,785	2,894,962	202,808
Noncurrent liabilities:						
Certificates of participation	16,355,155	10,389,857	23,344,845	17,810,143	39,700,000	
Compensated absences	70,391	53,699	53,340	51,827	123,731	
Total noncurrent liabilities	16,425,546	10,443,556	23,398,185	17,861,970	39,823,731	
Total Liabilities	18,077,508	11,439,987	24,641,185	18,973,755	42,718,693	202,808
NET ASSETS						
Invested in capital assets, net of related debt	8,829,611	9,710,931	6,206,820	7,793,211	15,036,431	1,020,832
Restricted for:						
Debt Service	375,000	250,000	375,000	250,000	750,000	
Unrestricted	9,952,599	9,403,171	5,685,656	3,902,218	15,638,255	3,302,288
Total Net Assets	$ 19,157,210	$ 19,364,102	$ 12,267,476	$ 11,945,429	31,424,686	$ 4,323,120
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds					303,050	
Net assets of business-type activities					$ 31,727,736	

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

TOWN OF HILLSBOROUGH
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Business-type Activities - Enterprise Funds					Governmental Activities -
	Water		Sewer		Total	Internal Service
	Current Year	Prior Year	Current Year	Prior Year	Current Year	Fund
OPERATING REVENUES:						
Sale of water	$ 5,982,747	$ 5,539,081			$ 5,982,747	
Water meter charges	333,894	332,697			333,894	
Sewer service charges			$ 5,126,141	$ 4,960,583	5,126,141	
Connection fees	125,063	63,982	23,228	15,767	148,291	
Other services						$ 558,505
Miscellaneous	30,116	6,987	74,816	64,635	104,932	37,732
Total Operating Revenues	6,471,820	5,942,747	5,224,185	5,040,985	11,696,005	596,237
OPERATING EXPENSES:						
Water purchases, utilities and pumping	2,143,672	2,267,030			2,143,672	
Sewage treatment services and utilities			1,103,573	1,037,438	1,103,573	
Personnel, overhead and facilities	2,334,916	1,946,003	1,522,875	1,277,617	3,857,791	
Materials, supplies and other	747,709	642,264	707,216	561,514	1,454,925	34,274
Depreciation and amortization	1,312,035	1,160,341	1,184,348	992,907	2,496,383	272,847
Total Operating Expenses	6,538,332	6,015,638	4,518,012	3,869,476	11,056,344	307,121
Operating Income (loss)	(66,512)	(72,891)	706,173	1,171,509	639,661	289,116
NONOPERATING REVENUES (EXPENSES):						
Investment earnings	449,114	280,113	349,156	111,521	798,270	102,472
Reimbursement from other government			-	695,278		
Interest expense	(438,494)	(392,133)	(821,488)	(807,694)	(1,259,982)	(14,636)
Total nonoperating revenue (expenses)	10,620	(112,020)	(472,332)	(895)	(461,712)	87,836
Income (loss) before contributions and transfers	(55,892)	(184,911)	233,841	1,170,614	177,949	376,952
Capital contributions	-		88,206	480,325	88,206	
Transfers out	(151,000)				(151,000)	
Change in net assets	(206,892)	(184,911)	322,047	1,650,939	115,155	376,952
Total net assets - beginning	19,364,102	19,549,013	11,945,429	10,294,490		3,946,168
Total net assets - end	$ 19,157,210	$ 19,364,102	$ 12,267,476	$ 11,945,429		$ 4,323,120
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.					14,519	
Change in net assets of business-type activities (page 22)					$ 129,674	

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

TOWN OF HILLSBOROUGH
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Fund
	Water		Sewer		Total	
	Current Year	Prior Year	Current Year	Prior Year	Current Year	
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers and users	$ 6,411,759	$ 6,446,923	$ 5,390,342	$ 4,869,583	$ 11,802,101	$ 37,732
Receipts from interfund services provided						558,505
Payment to suppliers	(3,537,194)	(3,864,584)	(2,610,565)	(2,596,275)	(6,147,759)	(34,274)
Payment to employees	(1,254,535)	(1,008,295)	(766,477)	(581,607)	(2,021,012)	
Payment to interfund services used	(29,040)	(29,040)	(48,340)	(48,340)	(77,380)	
Net cash provided (used) by operating activities	1,590,990	1,545,004	1,964,960	1,643,361	3,555,950	561,963
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Reimbursement from other government			88,206	695,278	88,206	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from capital debt	6,144,000		5,856,000		12,000,000	
Receipts from capital contributions			1,671,930	88,207	1,671,930	
Operating transfer to governmental funds	(151,000)				(151,000)	
Cost of issuance	(109,373)		(75,145)		(184,518)	
Acquisition and construction of capital assets	(3,004,006)	(2,865,732)	(3,299,766)	(1,866,623)	(6,303,772)	(204,872)
Principal paid on capital debt	(178,702)	(178,702)	(321,298)	(321,298)	(500,000)	
Interest paid on capital debt	(475,526)	(441,097)	(827,843)	(822,304)	(1,303,369)	(14,984)
Capital lease payment						(187,719)
Net cash provided (used) by capital and related financing activities	2,225,393	(3,485,531)	3,003,878	(2,922,018)	5,229,271	(407,575)
CASH FLOWS FROM INVESTING ACTIVITIES						
Investment earnings	462,203	242,402	338,253	86,736	800,456	121,238
Net cash provided by investing activities	462,203	242,402	338,253	86,736	800,456	121,238
Net increase (decrease) in cash and cash equivalents	4,278,586	(1,698,125)	5,395,297	(496,643)	9,673,883	275,626
Cash and cash equivalents - beginning	11,566,929	13,265,054	8,777,203	9,273,846	20,344,132	3,032,962
Cash and cash equivalents - ending (including $6,065,557 and $7,881,136 for the water and sewer funds, respectively reported in restricted accounts	$ 15,845,515	$ 11,566,929	$ 14,172,500	$ 8,777,203	$ 30,018,015	$ 3,308,588
Reconciliation of operating income to net cash provided (used) by operating activities:						
Operating income (loss)	$ (66,512)	$ (72,891)	$ 706,173	$ 1,171,509	$ 639,661	$ 289,116
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation and amortization expense	1,312,035	1,160,341	1,184,348	992,907	2,496,383	272,847
(Increase) decrease in accounts receivable	(316,811)	446,831	(111,647)	106,402	(428,458)	
(Increase) decrease in due from other governments				(277,804)		
(Increase) decrease in inventories and prepaids	11,778	65,926	31,114	(10,437)	42,892	
Increase (decrease) in customer deposits	256,750	57,345			256,750	
Increase (decrease) in accounts payable	377,058	(105,884)	153,459	(360,306)	530,517	
Increase (decrease) in compensated absences payable	16,692	(6,664)	1,513	21,090	18,205	
	1,657,502	1,617,895	1,258,787	471,852	2,916,289	272,847
Net cash provided (used) by operating activities	$ 1,590,990	$ 1,545,004	$ 1,964,960	$ 1,643,361	$ 3,555,950	$ 561,963

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

NOTES TO THE FINANCIAL STATEMENTS

TOWN OF HILLSBOROUGH
Notes to the Financial Statements
June 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the Town's accounting policies:

A. Reporting Entity

The Town of Hillsborough is a municipal corporation governed by a five-member council. The accompanying financial statements present the Town and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations.

Blended component unit - The operations of the Hillsborough Public Improvement Corporation (HPIC) which was established to assist in the financing of the acquisition of public improvements on behalf of the Town are combined with that of the Town's Water and Sewer funds in these financial statements. The City Council sits as its Board of Directors and has full accountability for its operations.

B. Government-wide and Fund Financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the Town of Hillsborough and its component unit. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities,* which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities,* which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants, functional taxes and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues.*

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The Town does not have any fiduciary funds or fiduciary-type component units.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting,* as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as

revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting.* Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Town.

The Town reports the following major governmental funds:

The *General Fund* is the Town's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Police and Fire Special Tax Fund* is used to account for revenues apportioned under a Town of Hillsborough voter-approved special tax which proceeds are designated for public safety operations and capital expenditures.

The Town reports the following major proprietary funds:

The *Water Fund* accounts for the activities associated with the distribution and transmission of potable water to the Town's residents.

The *Sewer Fund* accounts for activities associated with the treatment and transmission of sewage.

Additionally, the Town reports an *Internal Service Fund* that accounts for fleet management and the replacement of other equipments provided to other departments on a cost reimbursement basis.

The Town does not have any fiduciary fund and fiduciary-type component unit; hence, no such statements are included in this financial report.

Private-sector standards of accounting and financial reporting issued on or before November 30, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Town also has the option of following subsequent private-sector guidance for its enterprise funds, subject to the same limitation. The Town has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer functions of the Town. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants, functional taxes and contributions, and 3)

capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the water and sewer funds' principal ongoing operations. The principal operating revenues of the water and sewer funds, and of the Town's internal service fund, are charges to customers for sales and services. The Town also recognizes as operating revenues the portion of connection fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise and the internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the town's policy to use restricted resources first, then unrestricted resources as they are needed.

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.

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The Town'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.

The Town's investment policy and the California Government Code allow the Town to invest in the US Government, certificates of deposits placed with commercial banks, banker's acceptances, commercial paper, money market funds, repurchase agreements, the County of San Mateo Pooled Fund, and the California Local Agency Investment Fund (LAIF) pool. LAIF is regulated by the California Government Code Section 16429 under the oversight of the State Treasurer. The Town reports its investment in LAIF at the fair value amount LAIF provided. The Town's position in the pool is approximately the same as the value of the pool shares. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises and corporations. Cash and investments with the Trustee are invested pursuant to governing bond covenants.

The Town's investments are carried at fair value as required by generally accepted accounting principles.

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements, outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances"

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources

3. Property Taxes

Property taxes become an enforceable lien on property as of January 1, levied on July 1, payable in two installments on November 1 and February 1 and delinquent on December 10 and April 10. The County bills and collects the property taxes and remits them to the City.

The County is permitted by State Law (Proposition 13) to levy taxes at 1% of the full market value of the property (at time of purchase) and can increase the assessed property valuation by no more than 2% per year. This tax levy is distributed to the different governmental agencies under the State-mandated alternate method of apportioning taxes (commonly referred to as the "Teeter Plan") whereby all local agencies with historical tax delinquency rates less than 3%, receive from the County 100% of their respective shares of the amount of ad valorem taxes levied, without regard to the actual collection of taxes levied. The County handles all delinquencies, retaining interest and penalties.

Receivables are shown net of an allowance for uncollectibles where applicable. Unbilled services revenues in the Enterprise Funds are accrued at year-end.

4. Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

5. Restricted Assets

Certain proceeds of the Town's enterprise fund bond issue are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by the applicable bond covenant.

6. Capital Assets

Capital assets, which include property, plant, equipment, infrastructure (e.g., roads, sidewalks, and similar items), and water and sewer lines, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of two years.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) is included regardless of their acquisition date or amount. Town estimated the historical cost for the initial reporting of these assets through back trending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using a price-level index to deflate the cost to the acquisition or estimated acquisition year). As Town constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or

efficiency of the item or extend its useful life beyond the original estimate. Town values donations of capital assets at the estimated fair value of the item at the date of its donation.

Property, plant and equipment are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	40 years
Building improvements	30 years
Machinery and equipment	3-15 years
System infrastructure	30-50 years
Transmission and distribution systems	40 years

7. Compensated Absences

It is the Town's policy to permit employees to accumulate earned but unused vacation up to a certain amount. Sick leave vests in varying amounts depending on bargaining units and groups. Both are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

8. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type 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 effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

9. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

10. Comparative Data/Reclassifications

Comparative total data for the prior year have been presented only for individual enterprise funds in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS.

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Assets

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities

including capitalized leases, are not due and payable in the current period and therefore are not reported in the funds." The details of this $1,150,636 difference are as follows:

Accrued interest payable	$ 57
Capital leases payable	7,000
Compensated absences	1,143,579
Net adjustment to reduce *fund balance – total governmental funds* to arrive at *net assets – governmental activities*	$1,150,636

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances and the Government-Wide Statement of Activities

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over the estimated useful lives and reported as depreciation expense." The details of this $851,618 difference are as follows:

Capital outlay	$ 1,426,647
Depreciation expense	(575,029)
Net adjustment to increase *net changes in fund balances – total governmental funds* to arrive at *changes in net assets of governmental activities*	$ 851,618

Another element of that reconciliation states that "the issuance of long-term debt (e.g. leases) provides current financial resources to governmental funds, while the repayment of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets." The $13,494 difference refers to the down payment on capital lease.

Another element of that reconciliation states that "some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds." The details of this $95,809 are as follows:

Compensated absences	($95,922)
Accrued interest	113
Net adjustment to decrease *net changes in fund balances – total governmental funds* to arrive at *changes in net assets of governmental activities*	($95,809)

NOTE 3 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY.

Excess of Expenditures over Appropriations

For the year ended June 30, 2006, expenditures exceeded appropriations for $20,004, $8,200 and $25,847 in the Police and Fire Special Tax, Measure "A" and Police Grants funds respectively. These over expenditures were funded by available fund balance in the respective funds.

The Streets Department in the General Fund also exceeded appropriations in the amount of $87,121 resulting from unexpected increased activities, higher utilities, park maintenance costs and need for professional services. However, the legal level of budgetary control is the fund level and the excess appropriations in this department were covered by the expenditure savings from the rest of the General Fund departments.

NOTE 4 – CASH AND INVESTMENTS

The Town's deposits and investments are invested pursuant to its investment policy guidelines. The objectives of the policy are, in order of priority, preservation of capital, liquidity and yield. The policy addresses the soundness of financial institutions in which the Town will deposit funds, types of investment instruments as permitted by the California Government Code, and the percentage of the portfolio which may be invested in certain instruments with longer terms to maturity.

Total Town cash and investments at fair value on June 30, 2006, are as follows:

Deposits and investments	$32,439,256
Restricted cash and investments – held by fiscal agent	13,946,693
Total	$46,385,949

Cash and investments as of June 30, 2006, consist of the following:

Cash on hand	$ 8,500
Deposits with financial institutions	(153,442)
Investments	46,530,891
Total cash and investments	$46,385,949

Investments Authorized by the California Government Code and the Town's Investment Policy

The table below identifies the investment types that are allowed by the California Government Code and are authorized by the Town's more restrictive investment policy. The second part of the table relates to investments of debt proceeds held by bond trustees and governed by the provisions of the Town's debt agreements. The table addresses interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio	Maximum Investment in One Issuer
AUTHORIZED FOR THE CITY:			
U.S. Treasury Obligations	5 years	None	None
Banker's Acceptances	180 days	20%	Lower of $1M or 10%
Time Certificate of Deposit	2 years	None	$500,000
Commercial Paper	180 days	10%	$1M up to 3 months $500,000 up to 6 months
Local Agency Investment Fund (LAIF)	N/A	None	N/A
Repurchase Agreements	30 days	20%	20%
County Pooled Investment Funds	N/A	10%	N/A
Money Market Mutual Funds (Custodial Accounts Only)	N/A	None	None
TOWN OVERALL POOL	2 years 5 years	80% 20%	
AUTHORIZED BY DEBT AGREEMENTS:			
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Certificates of Deposits/Bankers Acceptances	360 days	None	None
Commercial Paper	270 days	None	None
Money Market Funds	N/A	None	None
Local Agency Bonds	None	None	None
Investment Contracts	None	None	None
Repurchase Agreements	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	N/A

Interest Rate Risk

Changes in market interest rates will affect the fair value of an investment. Generally, investments with longer maturities are more sensitive to changes in market interest rates. The Town manages its exposure to interest rate risk by purchasing a combination of shorter and longer term investments and by timing cash flows from maturities so that investments mature evenly over time as necessary to provide the cash flow and liquidity needed for operations. The following table shows the distribution of the Town's investments by maturity:

	Remaining Maturity (in Months)			
Investment Type	12 Months Or Less	13-24 Months	25-60 Months	Total
U.S. Treasury bills	$10,847,323			$10,847,323
U.S. Treasury notes	5,935,268	$2,933,750	$ 947,110	9,816,128
Commercial paper	974,139			974,139
San Mateo County Pool	2,071,756			2,071,756
Local Agency Investment Fund (LAIF)	8,868,648			8,868,648
Money Market Funds (Custodial Bank)	6,204			6,204
HELD BY BOND TRUSTEE:				
Money Market Funds	11,833,190			11,833,190
Local Agency Investment Fund (LAIF)	2,113,503			2,113,503
Total	$42,650,031	$2,933,750	$ 947,110	$46,530,891

Credit Risk

Credit risk – when an issuer of an investment does not fulfill its obligation to the holder investment – is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the Town's investment policy, or debt agreements, and the actual rating as of year end for each investment type:

				Rating as of Year End	
Investment Type	Amount	Minimum Legal Requirement	Exempt From Disclosure	AAA/A1-P1	Not Rated
U.S. Treasury bills	$10,847,323	N/A	$10,847,323		
U.S. Treasury notes	9,816,128	N/A	9,816,128		
Commercial paper	974,139	A1-P1		$ 974,139	
Local Agency Investment Fund (LAIF)	8,868,648	N/A			$ 8,868,648
San Mateo County Pool	2,071,756	N/A			2,071,756
Money market funds (Custodial bank)	6,204	N/A		6,204	
HELD BY BOND TRUSTEE:					
Money market funds	11,833,190	N/A		11,833,190	
Local Agency Investment Fund (LAIF)	2,113,503	N/A			2,113,503
Totals	$46,530,891		$20,663,451	$12,813,533	$13,053,907

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Custodial credit risk for investments is the risk, that, in the event of the failure of the counterparty (e.g. broker-dealer used by the Town to buy the securities), the government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Town's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision: A financial institution is required to secure deposits in excess of the $100,000 (government insured amount) made by state and local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law secured by US government securities at a constant margin ratio of 110% for government securities.

As of June 30, 2006, all Town's deposits with financial institutions were within the $100,000 government insured amount. As of June 30, 2006, commercial papers for $974,139 were held by a third-party custodial bank.

Investment in the State and the County Investment Pool

The Town is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. Likewise, it is also a voluntary participant in the San Mateo County Pool regulated by the California Government Code under the oversight of the San Mateo County Treasurer. The balance available for withdrawal is based on the accounting records maintained by LAIF and the San Mateo County, which are recorded on an amortized cost basis.

Interest and investment income consists of the following at June 30, 2006:

Interest earned	$1,330,226
Net change in fair market value	(107,570)
Total	$1,222,656

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Land – not being depreciated	$ 1,456,560	$	$	$ 1,456,560
Capital assets, being depreciated				
Land improvements	1,938,715	470,801		2,409,516
Buildings	2,587,158	23,406		2,610,564
Machinery and equipment	4,353,311	312,332	(192,801)	4,472,842
Infrastructure	10,199,018	856,389		11,055,407
Total capital assets being depreciated	19,078,202	1,662,928	(192,801)	20,548,329
Less accumulated depreciation for:				
Land improvements	(636,312)	(99,373)		(735,685)
Buildings	(1,882,729)	(58,041)		(1,940,770)
Machinery and equipment	(2,676,948)	(443,044)	(192,801)	(2,927,191)
Infrastructure	(5,816,154)	(247,418)		(6,063,572)
Total accumulated depreciation	(11,012,143)	(847,876)	(192,801)	(11,667,218)
Total capital assets, being depreciated, net	8,066,059	815,052		8,881,111
Governmental activities capital assets, net	$ 9,522,619	$ 815,052	$	$10,337,671

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type Activities:				
Land – not being depreciated	$	$	$	$
Capital assets, being depreciated				
Buildings	341,337			341,337
Machinery and equipment	1,026,407	59,146		1,085,553
Systems & transmissions	86,619,764	6,287,491		92,907,255
Total capital assets being depreciated	87,987,508	6,346,637		94,334,145
Less accumulated depreciation for:				
Buildings	(225,928)	(11,681)		(237,609)
Machinery and equipment	(537,319)	(109,202)		(646,521)
Systems & transmissions	(49,816,824)	(2,343,453)		(52,160,277)
Total accumulated depreciation	(50,580,071)	(2,464,336)		(53,044,407)
Total capital assets, being depreciated, net	37,407,437	3,882,301		41,289,738
Business-type activities capital assets, net	$ 37,407,437	$ 3,882,301	$	$ 41,289,738

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
General government	$135,360
Public safety	182,575
Community services	765
Public works	256,329
Capital assets held by the Town's internal service funds are charged to the various functions based on their usage of the assets	272,847
Total depreciation expense – governmental activities	$847,876

Business-type Activities:	
Water	$1,299,775
Sewer	1,164,561
Total depreciation expense – business-type activities	$2,464,336

NOTE 6 – INTERFUND TRANSACTIONS

The following is a summary of the interfund transactions for the year ended June 30, 2006:

	Transfer In		
Transfer Out	**General Fund**	**Nonmajor Governmental Funds**	**Total**
General Fund	**$**	$ 101,255	$ 101,255
Police and Fire special tax fund	2,378,560		2,378,560
Nonmajor governmental funds	250,000	414,740	664,740
Water Fund		151,000	151,000
Total	$2,628,560	$ 666,995	$3,295,555

The transfers in to the General Fund included $2,378,560 transfer from the Police and Fire Special Tax Fund – a pass though fund – and $250,000 from the Measure "A" fund to cover street related costs incurred in the General Fund. Revenues from the voter-approved Police and Fire Special Tax are designated for public safety operations and capital expenditures accounted for in the General Fund. Transfers out of the General Fund included $101,255 to the Capital Projects Fund for certain capital improvements. Transfers out of the Police Grants Fund covered $14,740 of capital improvements. The $400,000 transfers in to the Capital Projects Fund covered transfers from the Gas Tax and the Measure "A" funds for streets related projects. The $151,000 transfer from the Water Fund to the Capital Projects Fund represented the Water Fund's contribution for certain streets related projects.

NOTE 7 – LEASES

Capital Leases - The Town has entered into lease agreements as lessee for photocopiers and reproduction equipment and fire engines. The lessors were granted security interests in any and all rights, titles and interests of the Town in the equipments. These lease agreements are classified as capital leases for accounting purposes, and therefore have been recorded at the present value of the future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

	Governmental Activities
Asset:	**Amount**
Machinery and equipment	$ 950,834
Less: Accumulated depreciation	272,261
Total	$ 678,573

The future minimum lease payments for these leases are as follows:

	Governmental Activities
Year Ending 6/30	**Amount**
2007	$209,875
Less: Amount representing interest	(6,729)
Present value of minimum lease payments	$ 203,146

NOTE 8 – INTEREST RATE SWAPS

Objective of interest rate swap. As a means to manage variable interest rate exposure and potentially lower its long-term borrowing costs, the Town entered into various interest rate swaps relating to its variable-rate bonds.

Terms. On May 31, 2000, the Town signed a swap agreement to convert the 2000 Series A COPs to a fixed rate of 5.262 percent based on a notional amount of $4,900,000 which matched the par amounts of the bonds. The swap was structured to comply with regulations governing the variable rate refunding of the 1997 fixed rate tax-exempt COPs to its first call date of June 1, 2007. The Town pays the counterparty the fixed rate and receives variable payments based on the actual remarketing rates reset on a weekly basis.

On August 21, 2003, the Town entered into a swap agreement to convert the 2000 Series B variable-rate COPs to a fixed rate of 3.75 percent, subject to an early termination under certain conditions, until they mature on June 1, 2030. Concurrent with the bond issuance of the 2003 Series A COPs (See Note 9), the Town also entered into a swap agreement to convert the 2003 Series A variable-rate COPs to a fixed rate of 3.77 percent, subject to an early termination under certain conditions, until they mature on June 1, 2033. Under both swaps, the Town pays the counterparty the fixed rates and receives variable payments based on The Bond Market Association Municipal Swap Index (BMA). Both swaps are intended to remain in place for the life of the bonds, barring an early termination. The counterparty will have the right, but not the obligation, to terminate these transactions in whole, but not in part, on each day that the daily weighted average of the BMA index for any immediate preceding rolling consecutive 180-days period is more than 7 percent. The notional amounts of the swaps match the principal amounts of the associated debts. There was no cash paid or received when the swaps were initiated.

On December 27, 2005, the Town entered into a "forward starting 68% of LIBOR interest rate swap" agreement to convert the $12,000,000 variable-rate COPS, Series 2006, as fully discussed in Note 9 of this report, to a fixed rate of 3.507% until they mature on June 1, 2035. The swap is intended to remain in place for the life of the bonds. The notional amounts of the swap match the principal amounts of the associated debt and there was no cash paid or received when the swap was initiated.

Fair value. The following fair values of the swaps as of June 30, 2006, provided by the counterparty are derived from proprietary models based upon well recognized financial principles:

Bond Issue	Notional Amount	Fair Values
2000A	$ 4,900,000	($ 71,552)
2000B	9,300,000	139,437
2003A	14,500,000	199,233
2006A	12,000,000	491,220
Total		$ 758,338

Credit risk. As of June 30, 2006, the Town was exposed to credit risk to the extent of the swaps' positive fair value in the amount of $758,338. The swap counterparty is rated Aa2 by Moody's Investors Services, AA- by Standard & Poor's and A+ by Fitch Ratings as of October 1, 2005.

Termination risk. The Town or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. The swaps may be terminated by the counterparty if the Town's credit quality rating falls below Baa2 by Moody's Investors Service and BBB by Fitch Ratings and by Standard & Poor's. If the swap is terminated, the variable-rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination, the swaps have negative fair values, Town would be liable to the counterparty for a payment equal to the swaps' fair values.

As noted above, counterparty will also have the right, but not the obligation, to terminate the 2000B and 2003A swaps in whole, but not in part, on each day that the daily weighted average of the BMA index for any immediate preceding rolling consecutive 180 days period is more than 7 percent. Under such early termination event, the counterparties shall be liable to pay only the accrued interest for the period from the last payment date to the termination date.

Rollover risk. The Town is exposed to rollover risk on swaps that mature or may be terminated prior to the maturity of the associated debt. The swap termination date on the Series 2000A COPs is June 1, 2007, after which the debt will be in a variable-rate mode. The related debt matures on June 1, 2030. The outstanding principal of the Series 2000A COPs as of June 1, 2007, will be $4,900,000.

Refer to Note 9 for swap payments and associated debt service requirements. `

NOTE 9 – LONG-TERM DEBT

Long-term liability activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Capital leases	$ 404,359	$	($201,213)	$ 203,146	$203,146
Compensated absences	1,047,658	106,490	(10,569)	1,143,579	
Governmental activity long-term liabilities	$ 1,452,017	$ 106,490	($211,782)	$ 1,346,725	$203,146
Business-type activities:					
Compensated absences	$ 105,526	$ 18,205	$	$ 123,731	$
Certificates of participation	28,700,000	12,000,000	(500,000)	40,200,000	500,000
Business-type activity long-term liabilities	$28,805,526	$12,018,205	($ 500,000)	$40,323,731	$500,000

Compensated absences—Compensated absences due within one year represent unpaid balances of reimbursable unused leave of employees who are retired as of the balance sheet date. All compensated absences for governmental activities are paid out of the General Fund.

Certificates of participation(COPs)—The certificates are recorded in the Enterprise Fund and were issued by the Public Improvement Corporation . Two issues on June 1, 2000, comprised of $4,900,000 Series A, proceeds of which were used to advance refund the 1997 COPs that will mature on the June 1, 2007 call date and $10,100,000 Series B that were used to refund and retire the 1995 COPs and to finance the acquisition, construction and installation of certain improvements to the Town's water and sewer systems. The debt bears variable rates with principal payments payable annually at June 1 from 2001 through 2030.

The 2003 Series A $15,000,000 of variable rate certificates of participation (water and sewer system projects) issued in August 2003 financed various water and wastewater projects, consistent with the enterprise's ten year capital improvement plan. The debt bears variable rates with principal payments payable annually at June 1 from 2004 through 2033.

On April 2006, the Town issued $12,000,000 of variable rate certificates of participation (water and sewer system projects) 2006 Series A to finance various water and wastewater projects consistent with the enterprise's ten year capital improvement plan. (Please refer to Note 8 discussing the forward swap agreement entered into by the Town in connection with this bond issue.) The debt bears variable rates with principal payments payable annually at June 1 of each year starting in 2009 through 2035.

The Town received ratings of AA+ from Fitch and AA from Standard & Poor's for the above bond issue.

A standby purchase agreement (SPA) provides for the payment of the purchase price of the tendered variable-rate COPs during the daily, weekly, and extended-rate modes in the event remarketing proceeds following such a tender are insufficient. The initial term of the SPA expires on July 1, 2011.

Interest accruing on the COPs is determined at the weekly rate and is payable on the first business day of each calendar month. The debt is secured by a pledge of the net revenues of the Enterprise Funds.

There are limitations and covenants contained in the various debt agreements. The Town complies with all restrictive limitations and covenants at June 30, 2006.

In 2006, the Town's total interest cost was approximately 4.26%. Using the average variable rate in fiscal year 2005-2006, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary. (Refer to Note 8.)

Year Ending	Variable-Rate Bonds		Interest Rate	Total
June 30	Principal	Interest	Swaps, Net	Interest
2007	$ 500,000	$ 1,422,433	$252,550	$1,674,983
2008	600,000	1,293,410	361,338	1,654,748
2009	860,000	1,273,835	355,026	1,628,861
2010	870,000	1,245,823	347,292	1,593,115
2011	980,000	1,217,487	339,502	1,556,989
2012-2017	6,060,000	5,536,241	1,535,769	7,072,010
2018-2021	7,200,000	4,487,886	1,224,625	5,712,511
2022-2026	8,795,000	3,224,396	860,591	4,084,987
2027-2031	9,985,000	1,645,770	396,214	2,041,984
2032-2035	4,350,000	303,408	57,982	361,390
	$40,200,000	$21,650,689	$5,730,889	$27,381,578

1997 Certificates of Participations Advance Refunding- As discussed above, the 1997 Certificates of Participations were advanced refunded to reduce total debt service. The refunded bonds are

considered to be defeased and the liability has been removed from the proprietary funds statement of net assets. The proceeds of the refunding bonds were placed in an irrevocable trust for the purpose of generating resources to pay the remaining debt service and the remaining principal balance as of the initial redemption date - June 2, 2007. Outstanding principal balance on the refunded bonds as of June 30, 2006 was $4,205,000.

The internal service fund predominantly serves the governmental funds. Accordingly, the capital lease for the fund is included as part of the capital lease for governmental activities discussed in Note 7.

NOTE 10 – RISK MANAGEMENT

The town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance. The Town has established a limited risk management program of these types of risks.

The Town joined a public-entity risk pool (The Cities Group – a Joint Power Authority) that operates a Workers' Compensation self-insured program. The pool indemnifies the membership for their Workers' Compensation losses and recovers those costs from the members through a retrospective, loss experience based contribution-rating plan. The pool is self-insured for claims up to $250,000 per occurrence. Claims in excess of this amount are insured up to $6.1 million. The Town has no deductible for these claims. The Town's premiums for the fiscal year ended June 30, 2006, were $607,543. Financial statements for the pool may be obtained from The Cities Group, P O Box 111, Burlingame, CA 94011.

Effective October 1, 2002, the Town participates in the Association of Bay Area Governments Pooled Liability Assurance Network (ABAG PLAN) organized within the Joint Powers Authority Association of Bay Area Governments. The PLAN provides $10,000,000 coverage for general and automobile liability in excess of the Town's $50,000 deductible. Effective July 1, 2003, Town also joined the ABAG PLAN pool for the commercial property including boiler and machinery coverage, with $5,000 per incident deductible and certain specified limits.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider these factors, estimated recoveries from salvage or subrogation, and other economic and social factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. The amount recorded as liability for known claims are based on the recommendation of the third-party administrator. No accrued liability for incurred but not reported claims (IBNRs) has been recorded as amounts for such claims cannot be reasonably estimated. The Town's remaining exposure for claims filed under this program is minimal.

The Town is self-insured for all other insurable risk, except for excess insurance coverage provided by commercial insurance companies that are limited to the following:

- Earthquake in excess of 15% per unit subject to $25,000 minimum deductible, but limited to a maximum of $10,000,000
- Employment Practices Liability in excess of $100,000, but limited to a maximum of $5,000,000.

There is no significant change in insurance coverage from that of the prior year and there were no settlements that exceeded coverage for each of the past three years.

Below is a reconciliation of changes in the aggregate liabilities for claims for the fiscal years ending June 30, 2006 and 2005.

	2006	2005
Beginning Balance	$ 68,718	$ 287,129
Claims incurred and changes in estimates for prior year claims	90,536	(52,689)
Claims paid	(108,416)	(165,722)
Ending Balance	$ 50,838	$ 68,718

NOTE 11 – JOINT POWERS AGREEMENT

The Town participates in the City/County Association of Governments of San Mateo County (C/CAG), which is governed by a board consisting of a representative from each member. The board controls the operations of C/CAG, including selection of management and approval of operating budget. The association was established under a 1990 Joint Exercise of Powers Agreement between the Town, San Mateo County and a majority of cities within the County for the purpose of developing State-mandated plans such as an integrated waste management plan. The Town makes annual nonrefundable contributions to C/CAG, which are used along with other member contributions to finance C/CAG operations. The Town's contribution during the year totaled $21,899. Financial information related to the association may be obtained from the City of San Carlos, 666 Elm Street, San Carlos, CA 94070. The Town's share of year-end assets, liabilities or fund equity has not been calculated by C/CAG.

NOTE 12 – COMMITMENTS AND CONTINGENT LIABILITIES

The Town is obligated through cost sharing agreements with other municipalities to pay its pro-rata share of operating expenses, capital expenses and debt service for the operation of wastewater treatment plants. The Town is billed its portion of expenses pursuant to agreements it entered into with the municipalities. The costs incurred by the Town under these agreements amounted to $1,093,202 and $1,027,620 as of June 30, 2006 and 2005, respectively.

The Town is also obligated to pay a portion of the cost of operations of the local libraries, which are operated, by the Cities of Burlingame and San Mateo. The portion of these costs paid by the Town amounted to $600,311 and $579,411 as of June 30, 2006 and 2005, respectively.

At June 30, 2006, the Town has outstanding construction contracts and commitments for the water operations in the amount of $2,068,999.

The Town is subject to litigation arising in the normal course of business. In the opinion of the Town's management, there is no pending litigation, which is likely to have a material adverse effect on the financial position of the Town.

NOTE 13 – OTHER POST-EMPLOYMENT BENEFITS

The Town provides postretirement health benefits, administered through the California Public Employees Retirement System (CalPERS), pursuant to various Town Employee Associations' Memoranda of Understanding. To be eligible for these benefits, the employees must retire from the Town on or after attaining age 50 with benefits depending upon years of services varying from a minimum of 3 to 6 years. The town is required to pay a specified premium for each employee.

As of year-end, there were 81 employees who were receiving this benefit. The Town finances the plan on a pay-as-you-go basis. For the year ended June 30, 2006, the Town paid $613,297 for these benefits. (See Note 15 regarding GASB Statement No. 45.)

NOTE 14 – EMPLOYEE RETIREMENT SYSTEMS

A. PERS Pension Plan

Plan Description. The Town provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to its employees through a defined benefit pension plan offered by the Public Agency portion of the California Public Employees Retirement System (CalPERS), an agent multiple-employer plan, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions, as well as other requirements, are established by State statutes within the Public Employee's Retirement Law. The Town selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local resolutions. The Town participates in separate Safety (police and fire) and Miscellaneous (all other) Employee Plans. CalPERS issues a separate comprehensive annual financial report. Copies of its annual financial report may be obtained from CalPERS Executive Office at 400 P Street, Sacramento, CA 95814.

Funding Policy. Active plan members are required to contribute 8% (miscellaneous) or 9% (public safety) of their annual covered salary. For fiscal year 2006, plan members contributed $710,323. The Town is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used re those adopted by the CalPERS Board of Administration. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

Annual Pension Cost. For fiscal year 2006, the Town's annual pension cost was $2,125,474 The required contribution for the current year was determined as part of the June 30, 2003 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 8.25% investment rate of return (net of administrative expenses); (b) projected salary increases that vary by duration of service ranging from 3.75% to 14.20% for miscellaneous members (from 4.272% to 11.59% for safety members), and (c) 3.75% cost-of-living adjustment. Both (a) and (b) include an inflation component of 3.5%.

The Plans' provisions and benefits in effect at June 30, 2006, and the required contribution rates for fiscal year 2005-06 are summarized below:

	Police	Fire	Miscellaneous
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	Monthly for life	Monthly for life	Monthly for life
Retirement age	50	50	55
Monthly benefits, as a % of annual salary	3%	2% - 2.7%	2% - 2.7%
Required employee contribution rates	9%	9%	8%
Required employer contribution rates	24.945%	22.739%	21.287%

Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over an open 13-year period, which results in an amortization of 10% of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfounded liability may not be lower than the payment calculated over a 30-year amortization period.

The three-year trend information for the Town is as follows:

	Fiscal Year Ending	Annual Pension Cost	Percentage Of APC Contributed	Net Pension Obligation
Miscellaneous	6/30/04	$ 392,107	100%	$ - 0 -
	6/30/05	$ 676,201	100%	$ - 0 -
	6/30/06	$ 791,648	100%	$ - 0 -
Public Safety	6/30/04	$ 254,267		$ - 0 -
	6/30/05	$1,022,663	100%	$ - 0 -
	6/30/06	$1,333,826	100%	$ - 0 -

B. Social Security

The Town's Local 856 union members, management and part-time seasonal and temporary employees are covered under Social Security that requires these employees and the Town to each contribute 7.65% of the employees' pay. Total contributions to Social Security during the year ended June 30, 2006, amounted to $410,171.

NOTE 15 – NEW ACCOUNTING PRONOUNCEMENTS

In July 2004, GASB issued *Statement No. 45*, Accounting and Financial Reporting by Employers for Post-employment Benefits Other than Pensions. This will require local governmental employers who provide other post-employment 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. It 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 the local governmental employer.

Town's current financial reporting practices for OPEB are based on pay-as-you-go basis (See Note 13.) It does not measure or recognize the cost of OPEB during the periods when employees render the services or to provide relevant information about OPEB obligations and the extent to which progress is being made in funding those obligations.

The Statement provides for prospective implementation, i.e. employers set the beginning net OPEB obligation at zero as of the beginning of the initial year. The Town will be required to implement the provisions of this Statement for the fiscal year ended June 30, 2009. The Town is in the process of determining the impact the implementation of this Statement will have on the government-wide statement of net assets and activities.

In December 2004, GASB issued *Statement No. 46,* Net Assets Restricted by Enabling Legislation. This Statement sets the criteria and specifies the accounting and financial reporting requirements for such assets. The requirements of this Statement are effective for periods beginning after June 15, 2005. Town does not have any assets restricted by enabling legislation.

In June 2005, GASB issued *Statement No. 47,* Accounting for Termination Benefits. This Statement sets accounting standards for termination benefits and takes effect for periods beginning after June 15, 2005. Town does not have any termination plan other than the existing defined benefit OPEB plan discussed in Note 13 to be implemented with the requirements of *Statement No. 45* discussed above.

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REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF HILLSBOROUGH
SCHEDULE OF FUNDING PROGRESS
EMPLOYEES RETIREMENT SYSTEM

Valuation Date	Accrued Liability (a)	Actuarial Value of Assets (b)	Unfunded Liability (a) - (b)	Funded Status (b) / (a)	Annual Covered Payroll (c)	UAAL as a % of Payroll [(a)-(b)]/(c)
PUBLIC SAFETY:						
POLICE: (2)						
Retirement Program						
6/30/2003 (1)	1,218,082,935	1,083,690,137	134,392,798	89.0%	184,098,257	73.0%
6/30/2004	5,383,921,942	4,424,586,846	959,335,096	82.2%	575,296,434	166.8%
6/30/2005	6,367,049,264	5,295,150,375	1,071,898,889	83.2%	664,147,796	161.4%
FIRE:						
Retirement Program						
6/30/2003 (1)	1,218,082,935	1,083,690,137	134,392,798	89.0%	184,098,257	73.0%
6/30/2004	996,203,370	885,549,650	110,653,720	88.9%	149,407,703	74.1%
6/30/2005	742,247,338	646,358,708	95,888,630	87.1%	115,062,820	83.3%
MISCELLANEOUS: (3)						
Retirement Program						
6/30/2003 (1)	515,421,442	456,062,164	59,359,278	88.5%	120,692,360	49.2%
6/30/2004	426,958,282	334,956,019	92,002,263	78.5%	90,667,029	101.5%
6/30/2005	499,323,280	405,480,805	93,842,475	81.2%	108,618,321	86.4%

(1) Effective with the 6/30/2003 valuation, CalPERS established risk pools for plans containing less than 100 active members. Town's 3 plans are included in these risk pools.

(2) Police Plan's 6/30/2003 valuation reflects data for Safety 2% at 50 Risk Pool and Safety 3% at 60 Risk Pool for the 6/30/2004 valuation.

(3) Miscellaneous Plan's 6/30/03 valuation reflects data for Miscellaneous 2.7% at 55 Risk Pool and Miscellaneous 3% at 60 Risk Pool for the 6/30/2004 valuation.

TOWN OF HILLSBOROUGH
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2006

	SPECIAL REVENUE FUNDS				
	Gas Tax	Measure A	Police Grants	CAPITAL PROJECTS	Total Nonmajor Governmental Funds
ASSETS					
Cash and investments:					
Town Treasury	$	$ 46,731	$ 134,567	$ 620,242	$ 801,540
Accounts receivable				29,325	29,325
Due from other governments	21,450	36,113			57,563
Total Assets	$ 21,450	$ 82,844	$ 134,567	$ 649,567	$ 888,428
LIABILITIES					
Accounts payable	$	$	$ 21	$ 72,847	$ 72,868
Due to other funds	17,153				17,153
Total Liabilities	17,153		21	72,847	90,021
FUND BALANCES					
Unreserved -					
Designated for streets	4,297	82,844			87,141
Designated for public safety			134,546		134,546
Designated for capital improvement plan				576,720	576,720
Total Fund Balances	4,297	82,844	134,546	576,720	798,407
Total Liabilities & Fund Balances	$ 21,450	$ 82,844	$ 134,567	$ 649,567	$ 888,428

TOWN OF HILLSBOROUGH
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	SPECIAL REVENUE FUNDS				
	Gas Tax	Measure A	Police Grants	CAPITAL PROJECTS	Total Nonmajor Governmental Funds
REVENUES:					
Intergovernmental	$ 213,255	$ 413,044	$ 100,000	$ 254,081	$ 980,380
Investment earnings		1,294	6,164	24,815	32,273
Miscellaneous				237,845	237,845
Total Revenues	213,255	414,338	106,164	516,741	1,250,498
EXPENDITURES:					
Current:					
General government	5,428	13,400		23,981	42,809
Public safety			35,296		35,296
Public works				5,894	5,894
Capital outlay			76,051	1,350,596	1,426,647
Total Expenditures	5,428	13,400	111,347	1,380,471	1,510,646
EXCESS OF REVENUES OVER EXPENDITURES	207,827	400,938	(5,183)	(863,730)	(260,148)
OTHER FINANCING SOURCES (USES):					
Transfers In				666,995	666,995
Transfers Out	(225,000)	(425,000)	(14,740)		(664,740)
Total Other Financing Sources (Uses)	(225,000)	(425,000)	(14,740)	666,995	2,255
NET CHANGE IN FUND BALANCES	(17,173)	(24,062)	(19,923)	(196,735)	(257,893)
BEGINNING FUND BALANCES	21,470	106,906	154,469	773,455	1,056,300
ENDING FUND BALANCES	$ 4,297	$ 82,844	$ 134,546	$ 576,720	$ 798,407

Town of Hillsborough
Note to Required Supplementary Information
June 30, 2006

Budgetary Information

The Town adopts annual budgets on a basis consistent with generally accepted accounting principles for all governmental funds except the capital projects funds, which adopt project-length budgets. All appropriations lapse at fiscal year-end. Encumbrances which are commitments related to unperformed contracts for goods or services at year-end lapse and are automatically reappropriated and reencumbered in the subsequent fiscal year. Such encumbrances in the governmental funds at June 30, 2006 were $14,215. Budgets are also adopted and controlled for the proprietary funds. Budget comparisons for these funds are not legally mandated and thus are not presented.

Prior to June 30, the Town Manager submits to the Town Council a proposed operating budget for review. The Council holds public hearings and a final budget is adopted on or before June 30.

The appropriated budget is prepared by fund, function, and department. The Town's department heads may make transfers of appropriations within a department. The Town Manager may transfer budgeted amounts within any fund. Any revisions that alter the total expenditures of any fund must be approved by the Town Council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the fund level. Budget amounts shown in these financial statements include all supplemental appropriations made during the year for the General and the Special Revenue funds.

A schedule of revenues, expenditures and changes in fund balances – budget and actual – of the Town's general fund and the Police and Fire special tax fund – another major governmental fund- are presented as required supplementary information.

COMBINING STATEMENTS AND INDIVIDUAL FUND SCHEDULES

Nonmajor Governmental Funds

Special Revenue Funds

Special revenue funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

Gas Tax Fund – This fund is used to account for receipts and disbursements of funds apportioned under Streets and Highways Code Sections 2105, 2106, 2107 and 2107.5 of the State of California for the purpose of financing major street construction projects.

Measure "A" Fund – This fund is used to account for receipts and disbursements of a San Mateo County half-cent sales tax approved by the voters in June 1988 (Measure A) for the purpose of improving local transportation including streets and roads.

Police Grants Fund – This fund is used to account for activities funded by proceeds from various police grants and programs.

Capital Projects Fund

Capital projects funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds.

TOWN OF HILLSBOROUGH
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2006

	SPECIAL REVENUE FUNDS				
	Gas Tax	Measure A	Police Grants	CAPITAL PROJECTS	Total Nonmajor Governmental Funds
ASSETS					
Cash and investments:					
Town Treasury	$	$ 46,731	$ 134,567	$ 620,242	$ 801,540
Accounts receivable				29,325	29,325
Due from other governments	21,450	36,113			57,563
Total Assets	$ 21,450	$ 82,844	$ 134,567	$ 649,567	$ 888,428
LIABILITIES					
Accounts payable	$	$	$ 21	$ 72,847	$ 72,868
Due to other funds	17,153				17,153
Total Liabilities	17,153		21	72,847	90,021
FUND BALANCES					
Unreserved -					
Designated for streets	4,297	82,844			87,141
Designated for public safety			134,546		134,546
Designated for capital improvement plan				576,720	576,720
Total Fund Balances	4,297	82,844	134,546	576,720	798,407
Total Liabilities & Fund Balances	$ 21,450	$ 82,844	$ 134,567	$ 649,567	$ 888,428

TOWN OF HILLSBOROUGH
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	SPECIAL REVENUE FUNDS				
	Gas Tax	Measure A	Police Grants	CAPITAL PROJECTS	Total Nonmajor Governmental Funds
REVENUES:					
Intergovernmental	$ 213,255	$ 413,044	$ 100,000	$ 254,081	$ 980,380
Investment earnings		1,294	6,164	24,815	32,273
Miscellaneous				237,845	237,845
Total Revenues	213,255	414,338	106,164	516,741	1,250,498
EXPENDITURES:					
Current:					
General government	5,428	13,400		23,981	42,809
Public safety			35,296		35,296
Public works				5,894	5,894
Capital outlay			76,051	1,350,596	1,426,647
Total Expenditures	5,428	13,400	111,347	1,380,471	1,510,646
EXCESS OF REVENUES OVER EXPENDITURES	207,827	400,938	(5,183)	(863,730)	(260,148)
OTHER FINANCING SOURCES (USES):					
Transfers In				666,995	666,995
Transfers Out	(225,000)	(425,000)	(14,740)		(664,740)
Total Other Financing Sources (Uses)	(225,000)	(425,000)	(14,740)	666,995	2,255
NET CHANGE IN FUND BALANCES	(17,173)	(24,062)	(19,923)	(196,735)	(257,893)
BEGINNING FUND BALANCES	21,470	106,906	154,469	773,455	1,056,300
ENDING FUND BALANCES	$ 4,297	$ 82,844	$ 134,546	$ 576,720	$ 798,407

TOWN OF HILLSBOROUGH
GAS TAX FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Original and Final Budget	Actual	Variance with Final Budget - Positive (Negative)
REVENUES:			
Intergovernmental	$ 224,400	$ 213,255	$ (11,145)
Investment earnings	1,000		(1,000)
Total Revenues	225,400	213,255	(12,145)
EXPENDITURES:			
Current:			
General Government	10,000	5,428	4,572
Total Expenditures	10,000	5,428	4,572
EXCESS OF REVENUES OVER EXPENDITURES	215,400	207,827	(7,573)
OTHER FINANCING USES:			
Operating Transfers Out	(225,000)	(225,000)	
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER USES	(9,600)	(17,173)	(7,573)
BEGINNING FUND BALANCES	21,470	21,470	
ENDING FUND BALANCES	$ 11,870	$ 4,297	$ (7,573)

TOWN OF HILLSBOROUGH
MEASURE "A" FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Original and Final Budget	Actual	Variance with Final Budget - Positive (Negative)
REVENUES:			
Intergovernmental	$ 357,000	$ 413,044	$ 56,044
Investment earnings	1,000	1,294	294
Total Revenues	358,000	414,338	56,338
EXPENDITURES:			
Current:			
General Government	5,200	13,400	(8,200)
Total Expenditures	5,200	13,400	(8,200)
EXCESS OF REVENUES OVER EXPENDITURES	352,800	400,938	48,138
OTHER FINANCING USES:			
Operating Transfers Out	(425,000)	(425,000)	
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER USES	(72,200)	(24,062)	48,138
BEGINNING FUND BALANCES	106,906	106,906	
ENDING FUND BALANCES	$ 34,706	$ 82,844	$ 48,138

TOWN OF HILLSBOROUGH
POLICE GRANTS FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Original and Final Budget	Actual	Variance with Final Budget - Positive (Negative)
REVENUES:			
Intergovernmental	$ 100,000	$ 100,000	$
Investment earnings	4,460	6,164	1,704
Total Revenues	104,460	106,164	1,704
EXPENDITURES:			
Current:			
Public safety	35,000	35,296	(296)
Capital Outlay	50,500	76,051	(25,551)
Total Expenditures	85,500	111,347	(25,847)
EXCESS OF REVENUES OVER EXPENDITURES	18,960	(5,183)	(24,143)
OTHER FINANCING USES:			
Operating Transfers Out	(14,740)	(14,740)	
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER USES	4,220	(19,923)	(24,143)
BEGINNING FUND BALANCES	154,469	154,469	
ENDING FUND BALANCES	$ 158,689	$ 134,546	$ (24,143)

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CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS

TOWN OF HILLSBOROUGH
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
COMPARATIVE SCHEDULES BY SOURCE (1)
JUNE 30, 2006

	2006	2005
Governmental funds capital assets:		
Land	$ 1,456,560	$ 1,456,560
Land improvements	2,409,516	1,938,715
Building and improvements	2,610,564	2,587,158
Machinery and equipment	1,946,212	1,870,161
Infrastructure	11,055,407	10,199,018
Total governmental funds capital assets	$ 19,478,259	$ 18,051,612
Investments in governmental funds capital assets by source:		
General fund	$ 1,197,087	$ 1,197,087
Special revenue fund	187,685	111,634
Capital projects funds	12,018,870	10,668,274
Other - unclassified	6,074,617	6,074,617
Total governmental funds capital assets	$ 19,478,259	$ 18,051,612

(1) This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in the internal service fund are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net assets.

TOWN OF HILLSBOROUGH
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE BY FUNCTION AND ACTIVITY (1)
JUNE 30, 2006

Function and Activity	Land and Improvements	Buildings and Improvements	Machinery and Equipment	Infrastructure	Total
General Government:					
Council	$	$ 6,155	$ 6,891	$	$ 13,046
Finance		-	75,379		75,379
General Services	3,819,342	218,815	276,796		4,314,953
Total General Government	3,819,342	224,970	359,066		4,403,378
Public Safety:					
Police		76,075	1,041,528		1,117,603
Fire	46,734	892,846	535,001		1,474,581
Total Public Safety	46,734	968,921	1,576,529		2,592,184
Community Services:					
Building		5,980	6,755		12,735
Total Community Services		5,980	6,755		12,735
Public Work:					
Streets		1,410,693	3,862	11,055,407	12,469,962
Total Public Work		1,410,693	3,862	11,055,407	12,469,962
TOTAL GOVERNMENTAL FUNDS CAPITAL ASSETS	$ 3,866,076	$ 2,610,564	$ 1,946,212	$ 11,055,407	$ 19,478,259

(1) This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in the internal service fund are excluded from the above amounts. Generally, the capital assets of the internal service fund are included as governmental activities in the statement of net assets.

TOWN OF HILLSBOROUGH
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE OF CHANGES BY FUNCTION AND ACTIVITY (1)
FOR THE YEAR ENDED JUNE 30, 2006

	Governmental Funds Capital Assets July 1, 2005	Additions	Retirements	Governmental Funds Capital Assets June 30, 2006
General Government:				
Council	$ 13,046	$	$	$ 13,046
Finance	75,379			75,379
General Services	3,820,746	494,207		4,314,953
Total General Government	3,909,171	494,207		4,403,378
Public Safety:				
Police	1,041,552	76,051		1,117,603
Fire	1,474,581			1,474,581
Total Public Safety	2,516,133	76,051		2,592,184
Community Services:				
Building	12,735			12,735
Total Community Services	12,735			12,735
Public Work:				
Streets	11,613,573	856,389		12,469,962
Total Public Work	11,613,573	856,389		12,469,962
TOTAL GOVERNMENTAL FUNDS CAPITAL ASSETS	$ 18,051,612	$ 1,426,647	$	$ 19,478,259

(1) This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in the internal service fund are excluded from the above amounts. Generally, the capital assets of the internal service fund are included as governmental activities in the statement of net assets.

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STATISTICAL SECTION

This part of the Town of Hillsborough's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Town's overall financial health.

Contents **Page**

Financial Trends *61*

These schedules contain trend information to help the reader understand how the Town's financial performance and well-being have changed over time.

Revenue Capacity *66*

These schedules contain information to help the reader assess the Town's most significant local revenue source, the property tax.

Debt Capacity *70*

These schedules present information to help the reader assess the affordability the Town's current levels of outstanding debt and the Town's ability to issue additional debt in the future.

Demographic and Economic Information *75*

This schedule offer demographic and economic indicators to help the reader understand the environment within which the Town's financial activities take place.

Operating Information *78*

These schedules contain service and infrastructure data to help the reader understand how the information in the Town's financial report relates to the services the Town provides and the activities it performs.

Source: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

TOWN OF HILLSBOROUGH
NET ASSETS BY COMPONENT (accrual basis of accounting)
LAST FIVE YEARS (1)

	2002	2003	2004	2005	2006
Governmental activities:					
Invested in capital assets, net of related debt	$ 8,041,150	$ 8,689,913	$ 8,894,074	$ 9,118,260	$10,134,525
Restricted	184,607	188,633	204,588	20,261	-
Unrestricted	9,065,346	9,201,633	10,403,653	11,889,939	12,456,534
Total governmental activities net assets	17,291,103	18,080,179	19,502,315	21,028,460	22,591,059
Business-type activities:					
Invested in capital assets, net of related debt	17,615,990	19,484,058	18,261,566	17,504,142	15,036,431
Restricted	500,000	500,000	500,000	500,000	750,000
Unrestricted	10,080,348	8,732,949	11,328,510	13,593,920	15,941,305
Total business-type activities net assets	28,196,338	28,717,007	30,090,076	31,598,062	31,727,736
Primary government:					
Invested in capital assets, net of related debt	25,657,140	28,173,971	27,155,640	26,622,402	25,170,956
Restricted	684,607	688,633	704,588	520,261	750,000
Unrestricted	19,145,694	17,934,582	21,732,163	25,483,859	28,397,839
Total primary government net assets	$45,487,441	$46,797,186	$49,592,391	$52,626,522	$54,318,795

(1) Information from 95/96 through 00/01 were reported under the old financial reporting model.

TOWN OF HILLSBOROUGH
CHANGES IN NET ASSETS (accrual basis of accounting)
LAST THREE YEARS (1)

	2003	2004	2005	2006
Expenses:				
Governmental activities:				
General government	$ 861,208	$ 748,034	$ 849,893	$ 961,498
Public safety	9,332,715	9,795,994	10,408,830	11,841,571
Community services	1,757,876	1,917,420	2,155,271	2,016,079
Streets	1,057,967	1,482,061	1,512,620	1,741,566
Interest on long-term debt	35,070	30,448	22,716	14,636
Total governmental activities expenses	13,044,836	13,973,957	14,949,330	16,575,350
Business-type activities:				
Water	5,486,503	6,502,981	6,387,594	7,132,750
Sewer	4,660,778	5,398,232	4,655,389	5,320,057
Total business-type activities	10,147,281	11,901,213	11,042,983	12,452,807
Program Revenues:				
Governmental activities:				
Charges of services:				
General government	172,576	194,931	183,974	179,430
Public safety	393,653	562,800	594,236	664,199
Community services	1,069,180	1,304,056	1,476,419	1,521,821
Streets	51,083	71,435	97,064	71,714
Operating grants and functional taxes	2,889,847	3,198,961	2,973,402	3,424,755
Capital grants and contributions	363,600			151,000
Total governmental activities program revenues	4,939,939	5,332,183	5,325,095	6,012,919
Business-type activities:				
Charges for services:				
Water	5,740,293	7,160,629	5,942,747	6,471,820
Sewer	3,661,714	4,763,034	5,040,985	5,224,185
Operating grants				
Capital grants, contributions & other non-operating revenues	628,200	1,101,276	1,175,603	88,206
Total business-type program revenues	10,030,207	13,024,939	12,159,335	11,784,211
	14,970,146	18,357,122	17,484,430	17,797,130
Net (Expense)/Revenue:				
Governmental activities	(8,104,897)	(8,641,774)	(9,624,235)	(10,562,431)
Business-type activities	(117,074)	1,123,726	1,116,352	(668,596)
Total primary government net revenue	(8,221,971)	(7,518,048)	(8,507,883)	(11,231,027)
General Revenues and Other Changes in Net Assets				
Governmental activities:				
Taxes:				
Property tax	6,863,862	7,321,906	7,863,429	8,279,497
Property transfer tax	200,621	293,904	294,927	276,368
Franchise tax	271,332	597,022	586,374	672,946
Sales tax	70,267	75,842	51,436	54,694
Motor vehicle license tax	650,556	490,656	705,702	963,367
Business license tax	421,194	596,959	639,135	635,457
All others	193,642	580,603	700,775	825,774
Unrestricted investment earnings	216,459	107,018	298,670	416,927
Miscellaneous	6,040		9,932	-
Total governmental activities	8,893,973	10,063,910	11,150,380	12,125,030
Business-type activities:				
Investment earnings	192,093	249,343	391,634	798,270
Prior period adjustment	445,650			
Total business-type activities	637,743	249,343	391,634	798,270
Total primary government	9,531,716	10,313,253	11,542,014	12,923,300
Change in Net Assets				
Governmental activities	789,076	1,422,136	1,526,145	1,562,599
Business-type activities	520,669	1,373,069	1,507,986	129,674
Total primary government	$1,309,745	$2,795,205	$3,034,131	$ 1,692,273

(1) Information from 95/96 through 01/02 were reported under the old financial reporting model.

TOWN OF HILLSBOROUGH
GOVERNMENTAL ACTIVITIES TAX REVENUES BY SOURCE (accrual basis of accounting)
LAST TEN FISCAL YEARS

Fiscal Year	Property Tax	General Fund Tax (1)	Police & Fire Special Tax (1)	Property Transfer Tax	Franchise Tax (4)	Sales Tax/In-Lieu	Vehicle License Tax (3)	Business License Tax	Excess ERAF (2)
96/97	$4,028,505	$1,417,666		$ 185,556	$ 165,963	$ 48,962	$ 437,378	$ 340,753	
97/98	4,268,819	1,420,926		192,911	209,009	60,817	469,236	355,201	
98/99	4,640,000	20,415	$ 1,744,490	203,902	182,140	69,272	513,799	524,770	
99/00	5,170,249	4,982	1,793,176	351,841	219,642	82,528	566,017	601,303	
00/01	5,700,371		1,875,898	262,445	267,610	86,678	608,087	598,293	
01/02	6,713,362		1,918,162	219,770	302,034	79,288	603,700	559,221	
02/03	6,863,862		2,098,084	200,621	271,332	70,267	650,556	421,194	
03/04	7,321,906		2,137,608	293,904	597,022	75,842	490,656	596,959	$ 299,521
04/05	7,863,429		2,188,202	294,927	586,374	68,384	705,702	639,135	422,229
05/06	8,279,497		2,233,132	276,368	672,946	68,368	963,367	635,457	623,026

(1) The Police & Fire Special Tax was approved by the voters on June 1998 to replace the existing General Fund Tax and used solely to help maintain and enhance police protection, fire protection and prevention services.

(2) Starting FY 03/04, property tax contributions to the Education Revenue Augmentation Fund (ERAF) in San Mateo County reached a level where such contributions were in excess of State mandated school funding. The excess contributions are returned to the County agencies and other taxing districts.

(3) Vehicle license fee which is backfilled by the State of California starting in 1998 when the State reduced the rate from 2% to .65%, was not 100% backfilled in FY 03/04 (90-day backfill gap). The gap was paid back by the State in FY 05/06.

(4) Starting FY 03/04, Town imposed a 2% franchise tax on the water and sewer operations and increased the garbage franchise tax from 5% to 10%.

TOWN OF HILLSBOROUGH
FUND BALANCES OF GOVERNMENTAL FUNDS (modified accrual basis of accounting)
LAST TEN FISCAL YEARS

Fiscal	GENERAL FUND			ALL OTHER GOVERNMENTAL FUNDS			
					Unreserved		
Year	Reserved	Unreserved	Total	Reserved	Special Revenue Funds	Capital Projects Fund	Total
96/97	$ 6,366	$3,680,958	$3,687,324		$ 300,947	$ 884,580	$1,185,527
97/98	120,714	3,734,243	3,854,957		210,787	880,752	1,091,539
98/99	21,828	4,250,788	4,272,616		213,137	733,426	946,563
99/00	21,479	5,651,558	5,673,037		512,683	1,392,857	1,905,540
00/01	4,938	7,201,864	7,206,802		699,387	2,499,414	3,198,801
01/02	522	6,093,575	6,094,097		704,721	1,444,873	2,149,594
02/03	188,633	6,477,640	6,666,273		608,773	960,423	1,569,196
03/04	204,588	7,530,846	7,735,434		480,599	1,135,770	1,616,369
04/05	20,261	9,093,870	9,114,131		282,845	773,455	1,056,300
05/06	10,896	9,791,991	9,802,887		221,687	576,720	798,407

TOWN OF HILLSBOROUGH
CHANGES IN FUND BALANCES (modified accrual basis of accounting)
LAST TEN FISCAL YEARS

	96/97	97/98	98/99	99/00	00/01	01/02	02/03	03/04	04/05	05/06
Revenues:										
Taxes	$6,138,580	$6,454,053	$7,377,824	$8,224,312	$8,835,296	$ 9,843,347	$10,010,412	$11,424,565	$11,866,165	$12,594,762
Permits	415,774	427,335	582,960	532,547	757,279	702,091	592,012	952,786	1,002,682	973,812
Intergovernmental	1,523,362	1,166,556	1,166,361	1,321,176	1,679,442	1,435,748	1,368,867	1,522,953	1,494,891	2,130,587
Service charges	426,921	447,773	722,953	1,015,086	1,160,563	1,011,728	1,005,587	1,095,947	1,260,745	1,294,579
Fines and forfeitures	65,106	31,037	9,759	16,491	18,644	15,998	35,024	38,843	39,559	106,319
Investment earnings	267,091	299,938	441,687	394,913	579,444	370,887	168,306	88,513	246,700	321,914
Miscellaneous	149,156	290,605	140,930	282,557	227,236	231,171	235,912	246,838	488,446	462,504
Total revenues	8,985,990	9,117,297	10,442,474	11,787,082	13,257,904	13,610,970	13,416,120	15,370,445	16,399,188	17,884,477
Expenditures:										
General government	239,778	318,149	122,105	249,417	909,503	1,238,482	701,861	610,012	745,629	841,911
Public safety	6,106,813	6,200,209	7,207,418	7,328,859	7,745,863	8,697,839	9,042,643	9,823,341	10,642,740	11,776,226
Community services	1,930,152	2,092,703	1,733,897	1,199,694	958,668	1,082,131	1,758,364	1,870,188	2,128,278	2,037,695
Streets	343,375	382,668	246,058	650,047	608,265	989,953	1,192,607	1,292,613	1,350,876	1,522,135
Capital outlay	66,534	146,423	1,049,292	552,667	847,579	2,003,835	853,867	657,957	713,037	1,426,647
Total expenditures	8,686,652	9,140,152	10,358,770	9,980,684	11,069,878	14,012,240	13,549,342	14,254,111	15,580,560	17,604,614
Excess of revenues over (under) expenditures	299,338	(22,855)	83,704	1,806,398	2,188,026	(401,270)	(133,222)	1,116,334	818,628	279,863
Other Financing Sources (Uses):										
Proceeds from borrowing						62,823				
Transfers in	197,383	169,086	1,864,574	1,221,716	4,310,199	3,680,958	3,100,094	3,186,518	3,078,692	3,295,555
Transfers out	(197,383)	(72,586)	(1,675,595)	(668,716)	(3,671,199)	(5,504,423)	(2,975,094)	(3,186,518)	(3,078,692)	(3,144,555)
Total Other Financing Sources (Uses)	-	96,500	188,979	553,000	639,000	(1,760,642)	125,000			151,000
NET CHANGE IN FUND BALANCES	$ 299,338	$ 73,645	$ 272,683	$2,359,398	$2,827,026	$(2,161,912)	$ (8,222)	$ 1,116,334	$ 818,628	$ 430,863
NET CHANGE IN FUND BALANCES - GENERAL FUND	$ 103,985	$ 167,633	$ 417,659	$1,400,421	$1,533,765	$(1,112,705)	$ 470,839	$ 1,069,161	$ 1,378,697	$ 688,756

TOWN OF HILLSBOROUGH
ASSESSED VALUES OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS AND FISCAL YEAR 2006-2007

Fiscal Year		SECURED Gross Values	Exemptions	Net Values	UNSECURED	TOTAL	% Of Change
96/97	(1)			$ 2,565,295,646	$ 2,554,425	$ 2,567,850,071	4%
97/98		$ 2,719,533,026	$ 9,190,783	2,710,342,243	3,322,420	2,713,664,663	6%
98/99		2,941,617,433	11,145,203	2,930,472,230	3,376,784	2,933,849,014	8%
99/00		3,194,528,889	13,097,454	3,181,431,435	3,413,692	3,184,845,127	9%
00/01		3,506,585,684	14,352,645	3,492,233,039	4,956,263	3,497,189,302	10%
01/02		4,002,196,504	19,311,054	3,982,885,450	6,970,312	3,989,855,762	14%
02/03		4,265,002,027	20,057,597	4,244,944,430	4,295,776	4,249,240,206	7%
03/04		4,593,643,316	36,750,869	4,556,892,447	4,892,748	4,561,785,195	7%
04/05		4,848,654,018	58,881,688	4,789,772,330	4,369,077	4,794,141,407	5%
05/06		5,200,849,727	59,731,892	5,141,117,835	5,176,974	5,146,294,809	7%
06/07		5,611,225,649	59,993,273	5,551,232,376	4,843,411	5,556,075,787	8%

(1) Information on exemption for this year was not available.
Source: San Mateo County Assessor's Office

TOWN OF HILLSBOROUGH
PROPERTY TAX RATES
DIRECT AND OVERLAPPING GOVERNMENTS
LAST TEN FISCAL YEARS

Fiscal Year	GENERAL TAX RATE (1)	6-001	6-002	6-003	6-004	6-005	6-006
	General County	0.274911106	0.252182085	0.274911179	0.285734706	0.294030109	0.230000000
	Town of Hillsborough	0.187064334	0.171598249	0.187064370	0.194682676	0.170647908	0.152739644
	Burlingame Elementary General				0.167238422	0.172174826	
	Hillsborough Elementary General	0.198490672	0.264757979	0.198490727			
	San Mateo Elementary						0.283615706
	San Mateo High Gen Purpose	0.200530615	0.183951167	0.200530662	0.208404803	0.214476744	0.197053336
	SM Jr. College Gen Purpose	0.078662929	0.072159203	0.078662956	0.081761006	0.084133633	0.077298967
	Bay Area Air Pollution	0.002424072	0.002223591	0.002424024	0.002429960	0.002592656	0.002381620
	County Harbor District	0.004089267	0.003751173	0.004089201	0.004145226	0.004373659	0.004018269
	Mosquito Abatement	0.002226107	0.002041994	0.002226083	0.002287021	0.002380925	0.002187172
	Peninsula Hospital District	0.010663540	0.009781872	0.010663480	0.011006289	0.011405149	0.010478333
	County Education Tax	0.040937359	0.037552687	0.040937318	0.042309891	0.043784393	0.040226953
	Total	1.000000000	1.000000000	1.000000000	1.000000000	1.000000000	1.000000000
	COMPOSITE RATE TOTAL (2)						
96/97		1.0000	1.0227	1.0000	1.0239	1.0239	
97/98		1.0000	1.0296	1.0000	1.0376	1.0376	
98/99		1.0000	1.0329	1.0000	1.0269	1.0269	
99/00		1.0000	1.0399	1.0000	1.0289	1.0289	
00/01		1.0000	1.0367	1.0000	1.0257	1.0257	
01/02		1.0153	1.0563	1.0153	1.0402	1.0402	
02/03		1.0244	1.0672	1.0244	1.0486	1.0486	1.0672
03/04		1.0516	1.0944	1.0516	1.0471	1.0471	1.0654
04/05		1.0484	1.0484	1.0484	1.0475	1.0475	1.0484
05/06		1.0504	1.0504	1.0504	1.0443	1.0443	1.0504

(1) Allocation factors are before the Educational Revenue Augmentation Fund (ERAF) shift.
(2) The composite tax rate is the total of the county wide 1% general tax rate, plus the rates levied within the tax rate area, to pay the interest and redemption charges on any indebtedness approved by the voters and is used in computing the amount of taxes.

TOWN OF HILLSBOROUGH
PRINCIPAL PROPERTY TAXPAYERS
FISCAL YEAR 2005/2006

Taxpayer (Number of Parcels)	2005/2006 Taxable Assessed Value	2005/2006 Rank	2005/2006 Percentage of Total Taxable Assessed Value	1998/1999 Taxable Assessed Value	1998/1999 Rank	1998/1999 Percentage of Total Taxable Assessed Value
James G. B. De Martini III (4)	$ 28,555,346	1	0.55%			
Val E. Vaden Trust (1)	17,039,786	2	0.33%			
Amati LLC (1)	16,167,702	3	0.31%			
Redlich, Christopher R. Jr. (1)	14,581,600	4	0.28%			
Terence J. Garnett (2)	13,347,265	5	0.26%	5,021,000	8	0.17%
Otto J. Miller (5)	11,855,668	6	0.23%			
Rupert H. Johnson Jr. (1)	9,428,812	7	0.18%	5,396,530	6	0.18%
Kaplan, Samuel J. (1)	8,860,944	8	0.17%			
Dewitt Stephen W. (1)	8,712,862	9	0.17%			
Podell, Michael H. TR (1)	8,606,669	10	0.17%			
Arbit Trust (4)				18,598,205	1	0.63%
Patrick C. Tai & Michelle I. F. Yu (7)				8,888,161	2	0.30%
Michael H. Podell Trust (1)				6,837,664	3	0.23%
Shailesh J. & Kalpa S. Mehta Trust (1)				6,050,000	4	0.21%
Ralph Ming T. & Margaret T. Ho (2)				5,770,264	5	0.20%
S. Tat Chung & Kien Wah Wong (1)				5,285,519	7	0.18%
Sam J. & Nida Bamieh (1)				4,605,942	9	0.16%
Dennis & Debbie Choi (1)				4,495,354	10	0.16%

Source: San Mateo Tax Assessor's Office

TOWN OF HILLSBOROUGH
PROPERTY TAX LEVIES AND COLLECTIONS (1)
LAST EIGHT FISCAL YEARS (2)

Fiscal Year	Secured	Unsecured	HOPTR	Unitary	Educational Revenue Augmentation Fund (ERAF) Shift	Total	Amount Received (3)	Percent Received
1998-99	$ 4,595,065	$ 572,618	$ 77,131	$ 88,773	$ (762,978)	$ 4,570,609	$ 4,602,635	100.16%
1999-00	5,034,587	601,603	77,418	93,614	(831,188)	4,976,034	5,028,318	99.88%
2000-01	5,564,809	703,374	77,289	47,688	(919,728)	5,473,432	5,461,414	98.14%
2001-02	6,381,400	804,156	80,764	52,336	(1,052,665)	6,265,991	6,243,446	97.84%
2002-03	6,869,562	803,356	77,357	50,977	(1,122,773)	6,678,479	6,575,434	95.72%
2003-04	7,457,682	797,767	78,907	46,345	(1,207,430)	7,173,271	7,130,272	95.61%
2004-05	8,042,727	687,482	78,507	43,221	(1,276,133)	7,575,804	7,570,647	94.13%
2005-06	8,734,611	653,152	78,622	41,502	(1,394,558)	8,113,329	7,940,138	90.90%

(1) Town gets approximately $0.187 per dollar of property tax.
(2) Information from fiscal years 95-96 through 97-98 were not available and hence not included in this report.
(3) Receipts exclude supplemental taxes
Source: San Mateo County Assessor's Office

TOWN OF HILLSBOROUGH
RATIO OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS

Fiscal Year	Governmental Activities: Capital Leases	Business-Type Activities: Certificates of Participation	Total Primary Government	Per Capita
96/97		$ 4,675,000	$ 4,675,000	$ 413
97/98		9,640,000	9,640,000	835
98/99		9,200,000	9,200,000	792
99/00		15,000,000	15,000,000	1,284
00/01		14,900,000	14,900,000	1,358
01/02	$ 57,213	14,800,000	14,857,213	1,354
02/03	781,022	14,600,000	15,381,022	1,403
03/04	596,857	29,200,000	29,796,857	2,746
04/05	404,359	28,700,000	29,104,359	2,650
05/06	203,146	40,200,000	40,403,146	3,685

TOWN OF HILLSBOROUGH
COMPUTATION OF DIRECT AND OVERLAPPING DEBT
June 30, 2006

Jurisdiction	6/30/2006 Total Debt	Applicable Percentage (1)	6/30/2006 Debt	
DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:				
San Mateo Union High School District	$ 129,489,950	14.203%	$ 18,391,458	
San Mateo Community College District	332,729,800	4.995%	16,619,854	
Hillsborough School District	11,950,000	99.905%	11,938,648	
Burlingame School District	16,895,000	0.023%	3,886	
Town of Hillsborough			-	
Total Direct and Overlapping Tax and Assessment Debt			46,953,846	
OVERLAPPING GENERAL FUND OBLIGATION DEBT:				
San Mateo County General Fund Obligations	409,824,816	4.995%	20,470,750	
San Mateo County Board of Education Certificates of Participation	14,000,000	4.995%	699,300	
San Mateo Community College District Certificates of Participation	30,885,000	4.995%	1,542,706	
San Mateo Union High School District Certificates of Participation	35,000,000	14.203%	4,971,050	
San Mateo County Mosquito Abatement District Certificates of Participation	1,275,000	6.931%	88,370	
Total Gross Overlapping General Fund Obligation Debt			27,772,176	
Combined Total Debt			$ 74,726,022	(2)

(1) Percentage of overlapping agency's assessed valuation located within boundaries of the Town.
(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

RATIOS TO ASSESSED VALUATION:	
Direct Debt	-
Total Overlapping Tax and Assessment Debt	0.91%
Combined Total Debt	1.45%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/06: $0

Source: California Municipal Statistics, Inc.

TOWN OF HILLSBOROUGH
LEGAL DEBT MARGIN INFORMATION
LAST NINE FISCAL YEARS

Fiscal Year	Assessed Value	Debt Limit 3.75% (1)	Total Net Debt Applicable to Limit	Legal Debt Margin
97/98	$2,719,533,026	$ 101,982,488	$ -	$ 101,982,488
98/99	2,941,617,433	110,310,654	-	110,310,654
99/00	3,194,528,889	119,794,833	-	119,794,833
00/01	3,506,585,684	131,496,963	-	131,496,963
01/02	4,002,196,504	150,082,369	-	150,082,369
02/03	4,265,002,027	159,937,576	-	159,937,576
03/04	4,593,643,316	172,261,624	-	172,261,624
04/05	4,848,654,018	181,824,526	-	181,824,526
05/06	5,200,849,727	195,031,865	-	195,031,865

(1) Pursuant to California Government Code Section 43605 (15% of 25% of full cash value)

TOWN OF HILLSBOROUGH
SCHEDULE OF ENTERPRISE FUNDS BOND COVERAGE
LAST TEN FISCAL YEARS

Fiscal Year	Revenues		Expenses (1)	Net Revenues Available for Debt Service	Principal	Interest & Fiscal Charges	Total Debt Service		Coverage
1996-97	$ 5,714,241		$ 4,082,550	$ 1,631,691	$ 165,000	$ 212,799	$ 377,799		$ 4.32
1997-98	5,334,576		4,058,180	1,276,396	210,000	387,958	597,958	(2)	2.13
1998-99	5,658,517		4,766,523	891,994	265,000	205,863	470,863		1.89
1999-00	6,868,488		6,196,925	671,563	190,000	336,464	526,464	(2)	1.28
2000-01	7,851,628		6,317,162	1,534,466	100,000	675,282	775,282		1.98
2001-02	9,050,527	(3)	6,244,046	2,806,481	100,000	441,912	541,912		5.18
2002-03	9,594,100		7,915,619	1,678,481	200,000	472,082	672,082		2.50
2003-04	12,173,006		8,834,035	3,338,971	400,000	1,119,163	1,519,163		2.20
2004-05	12,070,644		7,731,866	4,338,778	500,000	1,284,014	1,784,014		2.43
2005-06	12,494,275		8,559,961	3,934,314	500,000	1,347,661	1,847,661		2.13

(1) Total expenses exclusive of depreciation and interest
(2) Debt service did not include principal redeemed/refunded during the years.
(3) 2001-2002 revenues exclusive of one-time transfer from Capital Projects
Source: Town's Finance Department

TOWN OF HILLSBOROUGH
WATER AND SEWER RATES
LAST NINE AND 2005-2006 FISCAL YEARS (1)

Fiscal Year		Water (2) 0-50 units	% of Change	Sewer Residential	% of Change
1996-97		$ 1.80		$ 502.43	
1997-98		1.80	0%	527.54	5%
1998-99		1.80	0%	580.00	10%
1999-00		1.80	0%	638.00	10%
2000-01		2.18	21%	702.00	10%
2001-02		2.40	10%	842.00	20%
2002-03		2.76	15%	926.00	10%
2003-04		3.17	15%	1,204.00	30%
2004-05		3.17	0%	1,264.00	5%
2005-06	(3)	3.17	0%	1,315.00	4%

Source: Town's Finance Department
(1) Information for fiscal years 93-94 through 95-96 were not available and hence not included in this report.
(2) Rates shown are for bimonthly billing; monthly billing rates are 14% higher.
(3) Sewer rate change was effective July 2005; water rate change was effective July 2006.

TOWN OF HILLSBOROUGH
DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN FISCAL YEARS

Fiscal Year	Population (1)	Median Household Income (2)	Per Capita Personal Income (2)	Median Age (2)	Bachelor's Degree or Higher (2)	School Enrollment (3)	Unemployment Rate (4)
1995-96	11,202					1,951	
1996-97	11,328					1,973	
1997-98	11,543					2,000	
1998-99	11,618					1,987	
1999-00	11,681	193,157	98,643	45.5	70%	2,025	1.1
2000-01	10,973					2,063	1.5
2001-02	10,975					2,062	2.2
2002-03	10,962					2,041	2.3
2003-04	10,850					2,030	1.9
2004-05	10,983					2,058	1.7
2005-06	10,965					2,109	1.5

(1) State of California, Department of Finance
(2) U.S. Census Bureau (Income data in 1999 dollars and not adjusted for inflation) (2004 Demographics Profile not available)
(3) Hillsborough City School District (K-Grade 8); Private schools (K-12)
(4) State of California, Employment Development Department (Data from 95/96 through 98/99 not available)

TOWN OF HILLSBOROUGH (1)
PRINCIPAL EMPLOYERS

Name of Employer	Total Peninsula Employees (3)	Description	Percentage of Total Metropolitan Division Employment (1)
United Airlines	10,328	Airline	1.08%
Oracle Corporation (2)	7,000	Software	0.73%
Genentech, Inc.	5,763	Biotechnology	0.60%
County of San Mateo	5,288	Government	0.55%
Kaiser Permanente	3,992	Health Care	0.42%
United States Postal Service	2,396	Postal Service	0.25%
Safeway Inc	2,140	Supermarkets	0.22%
Applera (Applied Biosystems)	2,000	Biotechnology	0.21%
Electronics Arts Inc.	1,800	Interactive Entertainment	0.19%
Mills-Peninsula Health Services	1,800	Hospital	0.19%
Stanford Linear Accelerator Center	1,500	Physics Research	0.16%

SOURCE: San Francisco Business Times 2006 Book of Lists, Largest Employers on the Peninsula

(1) The Town of Hillsborough does not allow business operations within the city limit. The table above reflects the statistical data for San Mateo County. Labor market information for San Mateo County as provided by the Employment Development Department of the State of California is contained in the SAN FRANCISCO-SAN MATEO-REDWOOD CITY METROPOLITAN DIVISION (MD) which includes Marin, San Francisco and San Mateo Counties

(2) Data does not include employees of Siebel Systems Inc which was recently acquired by Oracle Corporation

(3) Annotated by Employement Development Department, Labor Market Information Division; used publicly-available information to omit Stanford University, Hewlett Packard Co., and VISA International, all of which the Internet indicates are headquartered outside of San Mateo County.

TOWN OF HILLSBOROUGH
FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION
LAST TEN FISCAL YEARS

Function	96/97	97/98	98/99	99/00	00/01	01/02	02/03	03/04	04/05	05/06
General Government:										
City Manager	3	3	3	3	3	3	4	4	4	4
Finance	4	4	4	4	4	4	4	4	5	5
Community Services	5	5	5	6	7	7	7	7	7	7
Public Safety:										
Police	34	31	33	35	35	35	36	36	36	36
Fire (1)	30	30	35	37	37	37	37.75	37.75	30.75	30.75
Public WorKs:										
Administration	1	1	1	2	2	4	4	5	5	5
Maintenance:	17	20	20							
Streets				6	7	8	8	7	7	7
Water				6	7	7	7	11	11	11
Sewer				6	6	6	6	7	7	7
Total	94.00	94.00	101.00	105.00	108.00	111.00	113.75	118.75	112.75	112.75

(1) In FY 04/05, Town of Hillsborough and the City of Burlingame approved a Joint Powers Agreement (JPA) for fire combined services. Above figure refers to Hillsborough Fire.

TOWN OF HILLSBOROUGH
OPERATING INDICATORS BY FUNCTION
LAST TEN YEARS (WHEN AVAILABLE)

Function:	96/97	97/98	98/99	99/00	00/01	01/02	02/03	03/04	04/05	05/06	
Police (1)											
Calls for Service	9,001	10,048	8,914	8,521	9,512	7,603	8,221	7,757	7,274	7,411	
Burglar Alarm Activations	5,130	5,137	4,413	3,999	3,482	3,313	3,319	2,973	2,885	2,494	
Arrests:											
Adult	93	136	96	44	49	67	51	66	76	69	
Juvenile	24	32	20	16	14	16	11	19	22	27	
Traffic Activity:											
Fatal Injury Accidents								2			
Injury Accidents	18	19	19	14	12	17	13	21	13	15	
Non-injury Accidents	76	93	45	73	72	66	68	50	68	61	
Moving Citations	317	416	255	182	791	727	485	501	408	290	
Courtesy Warning Citations	627	659	412	659	979	547	335	279	175	124	
Criminal Activity:											
Crimes against persons	15	14	16	17	14	28	43	42	27	43	
Crimes against property	90	96	83	61	58	63	155	120	228	223	
Fire (1)											
Number of calls answered					1,550	1,676	1,854	1,607	2,711	4,306	(2)
Inspections							680	578		1,725	(2)
Planning - Design Review (1)											
New Houses Approved	21	14	32	17	33	17	26	17	18	12	
Other Applications Approved	103	225	226	266	309	308	259	263	243	236	
Building											
# of Permits Issued	2,174	2,224	2,388	2,445	2,454	2,118	1,948	2,378	2,317	2,485	
# of Projects	869	813	972	833	817	739	697	671	776	748	
Valuation of Permits Issued (in 000's)	$ 26,694	$ 39,219	$ 59,147	$ 60,128	$ 79,214	$ 74,079	$ 54,049	$ 75,540	$ 81,856	$ 79,226	
Total New Dwellings	16	14	22	15	25	16	12	21	17	14	
Streets											
Street resurfacing (miles)								2.65	14.07	14.07	
Potholes repaired				35	35	40	45	40	65	85	
Guardrail replacement (LF)					60	125	75	125	70	70	
Storm drains cleaned				2,210	1,692	2,585	3,135	2,775	1,500	1,800	
After hour callbacks					9	21	11	13	20	18	
Water											
New connections					4	2	15	20	11	11	
Water mains breaks						8	18	9	7	18	
Water purchased (thousand of gallons)					1,291	1,299	1,239	1,449	1,220	1,246	
Retail water sales (thousands of gallons)						1,329	1,203	1,343	1,166	1,131	
Meter replacements					36	40	70	58	37	81	
No of meter reads (calendar year)						25,038	25,102	25,267		25,404	
Cost per read ($/read)					$ 1.36	$ 1.40	$ 1.44	$ 1.48	$ 1.52	$ 3.57	
After hour callbacks					16	50	42	8	75	88	
Wastewater											
Average daily flow (sewer-MGD)											
San Mateo							0.54	0.33	0.32	0.32	
Burlingame						0.59	0.72	0.77	0.63	0.63	
Total							1.26	1.10		0.95	
After hour callbacks					24	50	41	11	37	24	

(1) Calendar year data
(2) On April 2004, the City of Burlingame and the Town of Hillsborough merged fire operations. These figures are for the merged operations in calendar year 2005, the first full year of the merged department.

TOWN OF HILLSBOROUGH
CAPITAL ASSETS STATISTICS BY FUNCTION
LAST TEN FISCAL YEARS (WHEN AVAILABLE)

Function:	96/97	97/98	98/99	99/00	00/01	01/02	02/03	03/04	04/05 (1)	05/06
Public Safety										
Police:										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units	16	16	16	16	16	16	16	16	16	16
Patrol motorcycles	4	4	4	4	4	4	4	4	4	4
Fire Stations	3	3	3	3	3	3	3	3	5	5
Streets & Storm Drains										
Streets (miles)	80.3	80.4	80.4	80.4	80.4	80.4	80.4	80.5	80.9	80.9
Storm drains (miles)					31.3	31.3	31.5	31.5	31.5	31.5
Water										
Water mains (miles)					97.24	97.24	97.24	97.71	96.71	96.71
Fire Hydrants					906	906	918	925	938	960
Maximum daily capacity (thousands of gallons)					8,325	8,325	8,325	8,325	8,325	8,325
Sewer										
Sanitary sewers (miles)					100.2	100.2	100.6	100.6	100.6	100.6

(1) On April 20, 2004, the Town of Hillsborough and the City of Burlingame approved a Joint Powers Agreement for fire combined services in which, except for certain items, operational costs will be shared 40%-60% respectively.

Note: No capital asset indicators are available for the general government function