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

TOWN OF HILLSBOROUGH, CALIFORNIA
Comprehensive Annual Financial Report
For The Fiscal Year Ended
June 30, 2005

Prepared by:

Finance Department

Town of Hillsborough
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2005

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INTRODUCTORY SECTION

TOWN OF HILLSBOROUGH

1600 FLORIBUNDA AVENUE
HILLSBOROUGH
CALIFORNIA
94010-6418

November 15, 2005

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 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, 2005.

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 form 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, 2005, 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, 2005, 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

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 10,983. 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 starting on page 53.

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 provided increased revenues to the community through increased assessed value and residential construction permits. Town saw some improvements to the local economy during the year with increased permit activities and some robust turnovers on property ownership.

Long-term financial planning.

The Town, as in most governments in the area, is faced with increasing retirement, workers compensation and health benefits costs. The Town is projected to face some structural gap between operating revenues and the increasing expenditures. During the last three years, Town implemented new fees and various permanent revenue enhancements. Additionally, it has adopted cost-cutting measures such as merging fire operations with the City of Burlingame. As needed, Town has deferred scheduled funding of the replacement reserves, various capital improvement projects and has left vacancies unfilled. With an improved financial picture these last two years, Town was able to resume a certain level of transfers to the replacement reserves.

However, Town management and staff continue to be cautious of the difficult times ahead. With the help of the volunteer Financial Advisory Committee, Town continues to explore long-term solutions for the projected shortfalls in the ensuing years such as an alternative funding for library services and analysis of the public safety tax to determine its sufficiency to cover current program costs.

Cash management policies and practices. The Town's cash and investments are managed on a pooled basis. The average investment portfolio was $34 million in fiscal year 2004-2005. Most of the funds were invested with the State of California Local Agency Investment Fund (LAIF) during the first part of the year until an updated investment policy was later implemented allowing investments in other instruments. Investment earnings totaled $815,331 for the fiscal year ended June 30, 2004 earning an average return of approximately 2.37%.

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 79 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 starting July 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, 2004. This was the third 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 2004-2005. 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, 2004. This is the fourth 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, 2004

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 2003-04

Presented to the

Town 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.

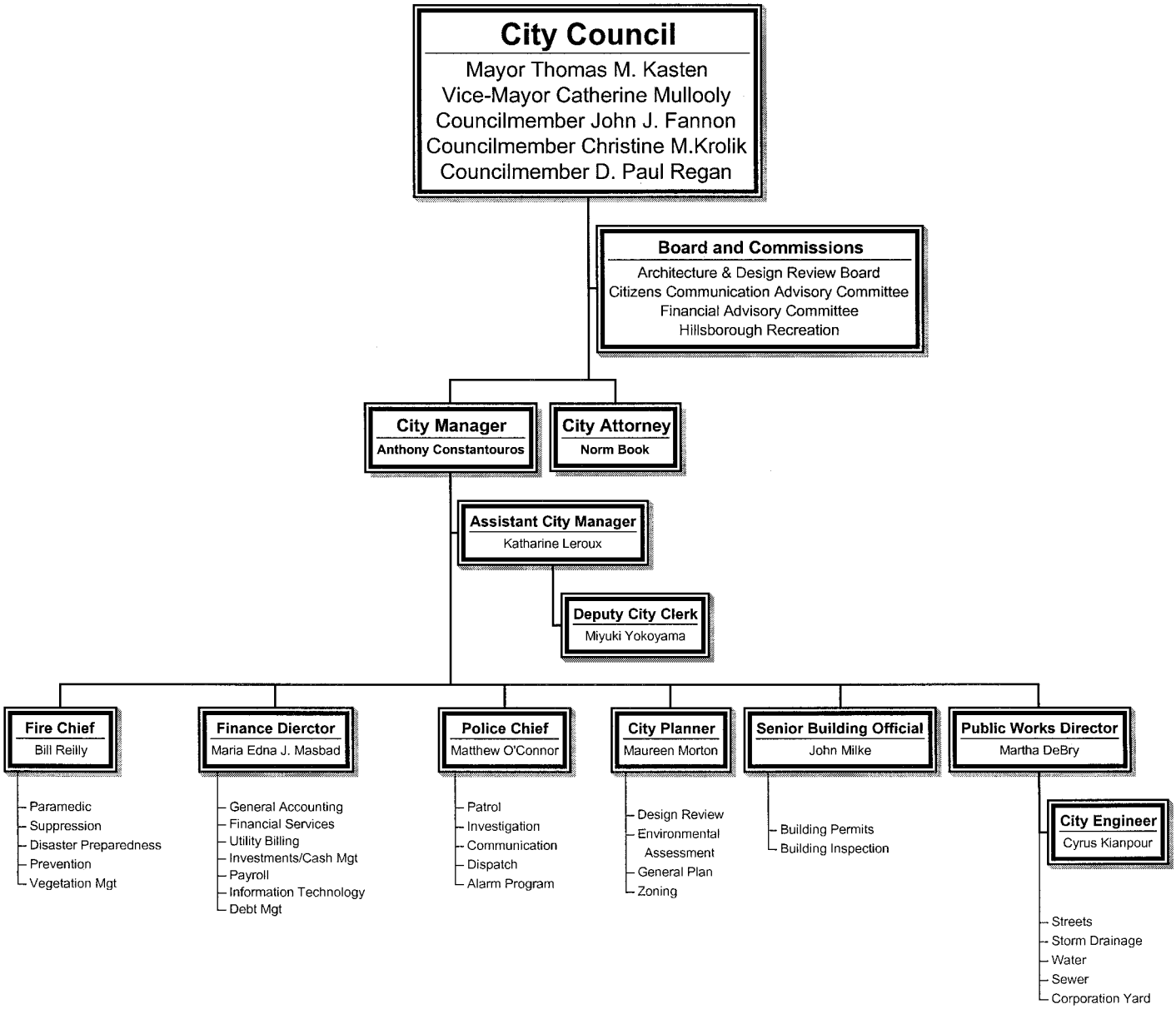
February 24, 2005

William J. Thomas

Bill Thomas, Chair
Professional & Technical Standards Committee

Dedicated to Excellence in Municipal Financial Management

Town of Hillsborough
Organizational Chart and Principal Officials



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FINANCIAL SECTION

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, 2005, 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, 2005, 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.

In accordance with *Government Auditing Standards,* we have also issued our report dated September 15, 2005 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.

5000 Hopyard Road, Suite 335 Pleasanton, CA 94588-3351 Tel: 925.734.6600 Fax: 925.734.6611 www.vtdcpa.com

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

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
September 15, 2005

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, 2005. 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- 4 of this report.

Financial Highlights

- The assets of the Town exceed its liabilities at the close of 2004-2005 fiscal year by $52,626,522 *(net assets)*. Of this amount, $25,483,859 *(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 $3,034,131; 50% of which from governmental activities and the other 50% from enterprise operations. Increase in net assets by approximately $1.5 million in governmental activities resulted from better than expected revenues and by not filling vacant positions. The other $1.5 million were from sewer operations which recognized capital contributions from other governments for approximately $480,000 pursuant to a reimbursement agreement. The other $1.1 million resulted from transactions relating to contractual disposal costs with another government of which $695,000 was classified as other non-operating revenue and the other $400,000 recognized with the current year's operations.
- As of June 30, 2005, the Town's governmental funds reported combined ending fund balances of $10,170,431, a 9% increase over the prior year. Except for $20,261, these fund balances are *available for spending* at the Town's discretion (*unreserved fund balances).*
- The Town's general fund reported a $1.4 million increase in fund balance. At the end of the current fiscal year, unreserved fund balance for the general fund was $9,093,870 up from $7,525,440 in 2003-2004. The fund balance reserve is approximately 62 percent of total general fund expenditures.
- Water consumption was down 14% from last year's due mostly to a wet winter; hence, revenue projections were short by 9% for the year. However, while cost of the San Francisco water was originally expected to rise, Town's wholesale water rates were decreased by 9.7% starting April 2005. Despite the shortfall, due to the reimbursement relating to sewer disposal costs discussed above, debt service coverage was up at $2.43 from $2.20 in the previous year. Debt covenant requires $1.20 coverage.

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 29-45 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 $52,626,522 at June 30, 2005.

TOWN OF HILLSBOROUGH'S NET ASSETS

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	$14,898,872	$13,185,317	$24,604,367	$26,659,377	$39,503,239	$39,844,694
Capital assets	9,522,619	9,490,931	37,407,437	34,615,793	46,930,056	44,106,724
Total assets	24,421,491	22,676,248	62,011,804	61,275,170	86,433,295	83,951,418
Long-term liabilities	1,250,804	1,419,446	28,305,526	28,791,100	29,556,330	30,210,546
Other liabilities	2,142,227	1,754,487	2,108,216	2,393,994	4,250,443	4,148,481
Total liabilities	3,393,031	3,173,933	30,413,742	31,185,094	33,806,773	34,359,027
Net assets:						
Invested in capital assets, Net of related debt	9,118,260	8,894,074	17,504,142	18,261,566	26,622,402	27,155,640
Restricted	20,261	204,588	500,000	500,000	520,261	704,588
Unrestricted	11,889,939	10,403,653	13,593,920	11,328,510	25,483,859	21,732,163
Total net assets	$21,028,460	$19,502,315	$31,598,062	$30,090,076	$52,626,522	$49,592,391

By far the largest portion of the Town's net assets (51 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 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of

unrestricted net assets ($25,483,859) may be used to meet the Town's ongoing obligations to citizens and creditors.

At June 30, 2005, 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 by $3,034,131. Net assets increased by approximately $1.5 million in governmental activities resulting from better than expected revenues and by not filling vacant positions. Sewer operations recognized capital contributions from other governments for approximately $480,000 pursuant to a reimbursement agreement. The other $1.1 million resulted from transactions relating to contractual disposal costs with another government of which $695,000 was classified as other non-operating revenue and the other $400,000 recognized with the current year's operations.

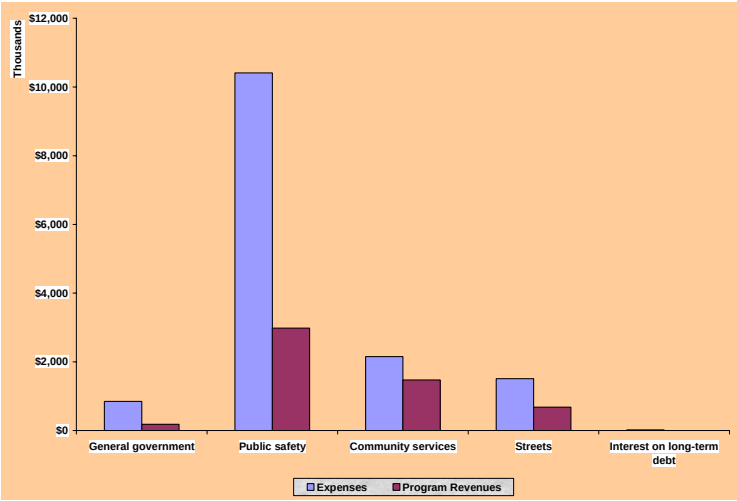
Governmental activities. Governmental activities increased the Town of Hillsborough's net assets by $1,526,145 accounting for 50 percent of the total growth in the net assets of the Town.

TOWN OF HILLSBOROUGH'S CHANGES IN NET ASSETS

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
REVENUES						
Program revenues:						
Charges for services	$ 2,351,693	$ 2,133,222	$10,983,732	$11,923,663	$13,335,425	$14,056,885
Operating grants and Functional taxes	2,973,402	3,198,961			2,973,402	3,198,961
Capital grants, contributions & Other Non-Operating			1,175,603	1,101,276	1,175,603	1,101,276
General revenues:						
Property taxes	7,863,429	7,321,906			7,863,429	7,321,906
Other taxes	2,277,574	2,054,383			2,277,574	2,054,383
Gain on sale of assets	9,932				9,932	
Investment earnings	298,670	107,018	391,634	249,343	690,304	356,361
All others	700,775	580,603			700,775	580,603
Total revenues	16,475,475	15,396,093	12,550,969	13,274,282	29,026,444	28,670,375
EXPENSES						
General government	849,893	748,034			849,893	748,034
Public safety	10,408,830	9,795,994			10,408,830	9,795,994
Community services	2,155,271	1,917,420			2,155,271	1,917,420
Streets	1,512,620	1,482,061			1,512,620	1,482,061
Interest on long-term debt	22,716	30,448			22,716	30,448
Water			6,387,594	6,502,981	6,387,594	6,502,981
Sewer			4,655,389	5,398,232	4,655,389	5,398,232
Total expenses	14,949,330	13,973,957	11,042,983	11,901,213	25,992,313	25,875,170
Increase in net assets	1,526,145	1,422,136	1,507,986	1,373,069	3,034,131	2,795,205
Net assets–July 1, 2004	19,502,315	18,080,179	30,090,076	28,717,007	49,592,391	46,797,186
Net assets–June 30, 2005	$21,028,460	$19,502,315	$31,598,062	$30,090,076	$52,626,522	$49,592,391

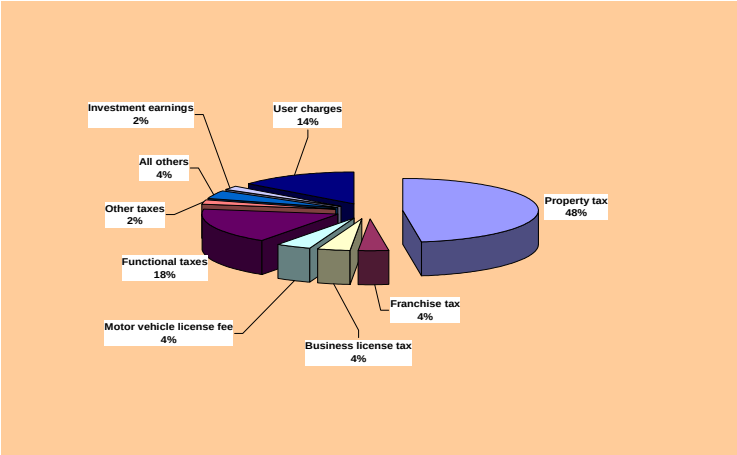
The graph below breaks down expenses by function and compares them to corresponding program revenues for governmental activities.

Expenses and Program Revenues – Governmental Activities



The following breaks down revenues by source.

Revenues by Source – Governmental Activities



The majority of the $1.5 million change in the governmental funds' net assets resulted from the General Fund's operations where revenues increased by $1.2 million – an 8.5% increase over the previous year. Meanwhile, expenditures increased by 7% or approximately $950,000 mainly from retirement and overtime cost.

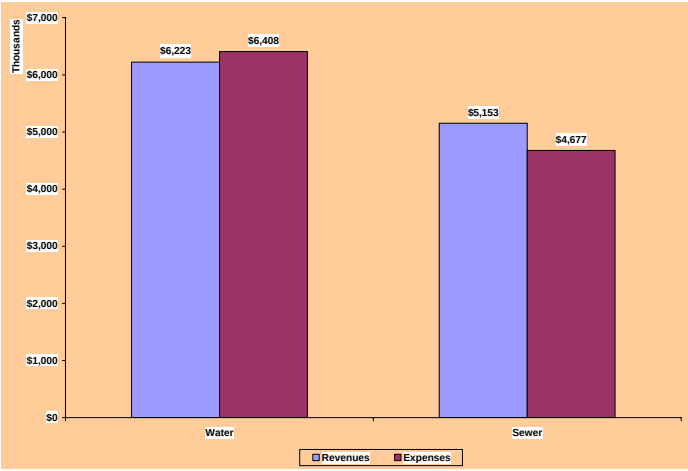
The table below summarizes the major revenue increases in the General Fund during the year:

REVENUES	04/05	03/04	Increase	%
Property taxes	$ 7,863,429	$ 7,321,906	$ 541,523	7%
ERAF refund	422,229	299,521	122,708	41%
Business license	639,134	596,959	42,175	7%
Construction permits	869,697	812,423	57,274	7%
Vehicle license fee	705,702	490,656	215,046	44%
Interest earnings	211,526	70,243	141,283	201%
Service charges	1,120,255	959,659	160,596	17%
Total	$11,831,972	$10,551,367	$1,280,605	12%

Budget projections for almost all revenue segments were met or exceeded with the Town realizing 3% more of total budget. Property taxes, construction permits and business license tax revenues all increased by 7%. Motor vehicle license fee – a state subvention – has been restored to its normal level. Service charges increased by 17% with staff's continued awareness to get reimbursed for services that benefit private individuals. Interest earnings also increased due to an improved market and the implementation of an updated investment policy that allows investment in instruments other than the state pool. Lastly, Town currently has a new revenue source – the return of local property tax commonly called excess ERAF. Property tax contributions made by the County to the Education Revenue Augmentation Fund (ERAF) in excess of mandated school funding are returned to the County agencies and other taxing districts. This year's excess ERAF amounted to $422,000.

Business-type activities. There is approximately a $1.5 million increase in net assets in the business-type activities of the Town. Highlights of the activities are as follows:

- No rate increase was authorized for this report year resulting from healthy operations during the previous year. But a wet winter brought about a 14% decrease in water consumption this year. Fortunately while cost of the San Francisco water (Town's water source) was originally expected to rise, Town's wholesale water rates were decreased by 9.7% starting April 2005. Despite the shortfall, due to the reimbursement for sewer disposal costs discussed below, debt service coverage was up to $2.43 from $2.20 in the previous year. Debt covenant requires $1.20 coverage.
- Sewer operations recognized a capital contribution of $480,325 reflecting project costs shared by three other agencies. Town recorded non-operating revenue in the amount of $695,278 returned by the City of Burlingame covering excess sewer disposal billings from the previous year. Additionally, disposal costs from both Cities of San Mateo and Burlingame decreased by approximately $200,000. The sewer operations' net assets increased by a total of $1.6 million.



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, 2005, the Town's governmental funds reported combined ending fund balances of $10,170,431, up $818,628 from the previous year. $9,093,870 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 balance increased by $1,378,697 during the current fiscal year. From a combination of better than expected revenues, continued awareness to be reimbursed for services to private individuals, the Town realized a $1.2 million increase in revenues. As discussed earlier, expenditures increased by $950,000 mainly from retirement and overtime cost.

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

Unrestricted net assets of the Water fund at the end of the year amounted to $9,403,171, slightly up from $9,198,742, and Sewer fund net assets increased to $3,902,218 from $1,883,195. 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:

	BUDGET	ACTUAL	VARIANCE
REVENUES			
Supplemental roll-Property tax	$ 200,600	$ 350,558	$ 149,958
Business license tax	580,511	639,134	58,623
Construction permits	806,053	869,697	63,644
Service charges	957,176	1,120,255	163,079
Interest	150,000	211,526	61,526
Other subventions		37,674	37,674
Total			534,504
EXPENDITURES			
Finance	284,641	260,414	24,227
Police	5,714,555	5,333,407	381,148
Fire	5,444,034	5,235,790	208,244
Planning	415,414	325,459	89,955
Building	926,890	876,277	50,613
Streets	1,378,475	1,335,972	42,503
Total			796,690
GRAND TOTAL			$1,331,194

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, 2005, amounts to $26,622,402 (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 III***-** This project cost $2.4 million and replaced 14,100 feet of mains, 39 fire hydrants and 135 residential water services.

Pump Stations Improvement – This project entailed repair or replacement of roofs at five pump houses.

Vulnerability Assessment Projects- The projects totaling $156,000 included metal siding for Crocker Reservoir, cyber lock access control system to the water facilities, entry gates, fencing of the Darrell Tank site, and installation of metal doors and site motion sensors at pump stations.

Enhancements to the Supervisory Control and Data Acquisition (SCADA) System- Additional hardware was installed to create an effective information backup system. An independent audit of the software configuration and documentation was also done to ensure stability of the platform.

Sewer Lining Project Phase I- This project costing $407,000 rehabilitated approximately 6,200 linear feet of sewer lines and 665 feet of storm drain pipes.

Pinehill/Ralston Sewer Relocation- The $1 million project would install a new sewer main on Pinehill between Ralston and Robin to divert flows from two sewer mains currently located in steep easement areas.

Sewer Cleaning and Video Inspection Phase II- This $285,000 project cleaned, videotaped and spot-repaired 13,000 linear feet of existing pipe in anticipation of future sewer main lining projects.

Crystal Springs/El Cerrito Sanitary Sewer Improvement Project- Several projects were approved to revegetate the landscape, monitor mitigation measures and accurately document sewage flows.

Shady Creek Retaining Wall Repair- This project will repair failed walls and slopes to protect a sanitary sewer main located in an easement.

Jewell Drive Storm Drain Repair- This project replaced a damaged storm drain line that was causing flooding in the area.

2004 Street Projects – This project that cost approximately $600,000 treated 23 street segments using asphalt overlays.

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

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	$ 1,456,560	$ 1,456,560			$ 1,456,560	$ 1,456,560
Land improvements	1,302,403	1,403,503			1,302,403	1,403,503
Buildings	704,429	773,487	$ 115,409	$ 127,089	819,838	900,576
Machinery and equipment	1,676,363	1,945,781	489,088	432,828	2,165,451	2,378,609
Infrastructure	4,382,864	3,911,600			4,382,864	3,911,600
Water and sewer lines			36,802,940	34,055,876	36,802,940	34,055,876
Total	$ 9,522,619	$ 9,490,931	$37,407,437	$34,615,793	$46,930,056	$44,106,724

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.

At June 30, 2005, the Town of Hillsborough had total debt outstanding excluding compensated absences in the amount of $29,104,359.

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

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Certificates of participation			$28,700,000	$29,200,000	$28,700,000	$29,200,000
Capital lease obligations	$404,359	$596,857			404,359	596,857
Total	$404,359	$596,857	$28,700,000	$29,200,000	$29,104,359	$29,796,857

Total debt paid during the year was $692,498. 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.

Additional information on the Town's long-term debt can be found in Note 9 on pages 40-41 of this report.

Economic Factors, Other Actions and Next Year's Budgets and Rates

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

El Arroyo Water Tank Replacement Project- This $1.2 million project will replace two 500k-gallon water tanks at the El Arroyo Tank site and construct additional mains on Eucalyptus, San Raymundo and El Arroyo to eliminate mains that currently exist within private properties.

Vista Park- Full renovation of the park was proposed largely funded by the Hillsborough Beautification Foundation.

2005 Water Main Replacement Phase IV- This project will include 3 miles of new water main.

On December 2004, the Town passed a new ordinance which requires homeowners applying for a plumbing permit to install backwater protection such as a backflow prevention device on their sewer laterals. The ordinance also requires that the device be installed in all properties with drainage unit fixtures at an inadequate height differential by January 1, 2007. Such device can prevent sewage from entering and damaging homes.

Sewer rates were increased by 4% for the 2005-2006 budget year to finance debt service requirement for the sewer operations. While no water rates increases were authorized for the current and onto the start of the 2005-2006 budget year, the City Council has approved subject to a public hearing, a 15% mid-year water rate increase effective January 1, 2006 to address change in water consumption level and in anticipation of additional debt planned in early 2006 that continues the capital improvement program.

Although Town's financial outlook has improved, there still remain many uncertainties concerning state funding and the economy in general. It is uncertain how the most recent natural disasters would affect the local economy. Town will continue to carefully plan its fiscal operations to counter any unanticipated actions by the state and economic downturns.

The Town, with the help of the volunteer Financial Advisory Committee, continues to explore long-term solutions for the projected shortfalls in the ensuing years.

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, 2005

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments:			
Town Treasury	$ 14,602,552	$ 11,547,427	$ 26,149,979
Trustee (Restricted)		8,796,705	8,796,705
Receivables, net of estimated uncollectibles:			
Accounts	80,561	1,356,977	1,437,538
Interest	93,064	144,564	237,628
Property tax receivable from County	355,000		355,000
Internal balances	(288,531)	288,531	
Due from other governments	55,053	1,771,198	1,826,251
Prepaids	1,173	47,914	49,087
Supplies		55,887	55,887
Cost of bond issuance (net of accumulated amortization)		595,164	595,164
Capital assets (net of accumulated depreciation):			
Land	1,456,560		1,456,560
Land improvements	1,302,403		1,302,403
Buildings	704,429	115,409	819,838
Machinery and equipment	1,676,363	489,088	2,165,451
Infrastructure	4,382,864		4,382,864
Water and sewer lines		36,802,940	36,802,940
Total Assets	24,421,491	62,011,804	86,433,295
LIABILITIES			
Accounts payable and other current liabilities	355,377	843,520	1,198,897
Accrued payroll liabilities	507,920		507,920
Deposits	680,863	586,899	1,267,762
Uninsured claims	490	68,228	68,718
Deferred revenue (unearned)	395,484		395,484
Accrued interest payable	880	109,569	110,449
Current portion of long-term debt	201,213	500,000	701,213
Non-current liabilities:			
Due in more than one year	1,250,804	28,305,526	29,556,330
Total Liabilities	3,393,031	30,413,742	33,806,773
NET ASSETS			
Invested in capital assets, net of related debt	9,118,260	17,504,142	26,622,402
Restricted for:			
Debt Service		500,000	500,000
Local Legislated Restrictions	20,261		20,261
Unrestricted	11,889,939	13,593,920	25,483,859
Total Net Assets	$ 21,028,460	$ 31,598,062	$ 52,626,522

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, 2005

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	Net (Expense) Revenues and Changes in Net Assets: Total
Governmental Activities:							
General government	$ 849,893	$ 183,974			$ (665,919)		$ (665,919)
Public safety	10,408,830	594,236	$2,390,867		(7,423,727)		(7,423,727)
Community services	2,155,271	1,476,419			(678,852)		(678,852)
Streets	1,512,620	97,064	582,535		(833,021)		(833,021)
Interest on long-term debt	22,716	-			(22,716)		(22,716)
Total governmental activities	14,949,330	2,351,693	2,973,402	-	(9,624,235)		(9,624,235)
Business-type Activities:							
Water	6,387,594	5,942,747		-		$ (444,847)	(444,847)
Sewer	4,655,389	5,040,985		$ 1,175,603		1,561,199	1,561,199
Total business-type activities	11,042,983	10,983,732	-	1,175,603	-	1,116,352	1,116,352
Total	$25,992,313	$13,335,425	$2,973,402	$ 1,175,603	(9,624,235)	1,116,352	(8,507,883)
General Revenues:							
Property tax					7,863,429		7,863,429
Property transfer tax					294,927		294,927
Franchise tax					586,374		586,374
Sales Tax					51,436		51,436
Motor vehicle license tax					705,702		705,702
Business license tax					639,135		639,135
All others					700,775		700,775
Gain on sale of fixed assets					9,932		9,932
Unrestricted investment earnings					298,670	391,634	690,304
Total general revenues					11,150,380	391,634	11,542,014
Change in net assets					1,526,145	1,507,986	3,034,131
Net assets - beginning					19,502,315	30,090,076	49,592,391
Net assets - ending					$ 21,028,460	$ 31,598,062	$52,626,522

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, 2005

	General Fund	Police and Fire Special Tax Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and investments:				
Town Treasury	$ 10,557,258	$ -	$ 1,012,332	$ 11,569,590
Receivables, net of estimated uncollectibles:				
Accounts	49,624			49,624
Interest	67,279		7,019	74,298
Property tax receivable from County	355,000			355,000
Due from other governments			55,053	55,053
Due from other funds	197			197
Prepaids	1,173			1,173
Total Assets	$ 11,030,531	$ -	$ 1,074,404	$ 12,104,935
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and other current liabilities	$ 331,643	$ -	$ 17,907	$ 349,550
Accrued payroll	507,920			507,920
Due to other funds			197	197
Deposits payable	680,863			680,863
Uninsured claims	490			490
Deferred revenue (unearned)	395,484			395,484
Total Liabilities	1,916,400	-	18,104	1,934,504
Fund Balances:				
Reserved for prepaids and other purposes	20,261			20,261
Unreserved - designated and reported in:				
Special revenue funds			282,845	282,845
Capital projects fund			773,455	773,455
Unreserved - undesignated	9,093,870			9,093,870
Total fund balances	9,114,131	-	1,056,300	10,170,431
Total Liabilities and Fund Balances	$ 11,030,531	$ -	$ 1,074,404	

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.	8,268,713
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.	3,657,637
Long-term liabilities, including capitalized leases, are not due and payable in the current period and therefore are not reported in the funds.	(1,068,321)
Net assets of governmental activities	$ 21,028,460

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, 2005

	General Fund	Police and Fire Special Tax Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:				
Taxes:				
Property	$ 7,863,429			$ 7,863,429
Public safety special tax		$ 2,188,202		2,188,202
Franchise taxes	586,374			586,374
Business license tax	639,135			639,135
All others	589,025			589,025
Permits	1,002,682			1,002,682
Intergovernmental	825,357		$ 669,534	1,494,891
Service charges	1,120,255	140,490		1,260,745
Fines and forfeitures	39,559			39,559
Investment earnings	211,526		35,174	246,700
Miscellaneous	449,278		39,168	488,446
Total Revenues	13,326,620	2,328,692	743,876	16,399,188
EXPENDITURES:				
Current:				
General government	727,012		18,617	745,629
Public safety	10,563,783		78,957	10,642,740
Community services	1,990,926		137,352	2,128,278
Streets	1,335,972		14,904	1,350,876
Capital outlay	8,922		704,115	713,037
Total Expenditures	14,626,615	-	953,945	15,580,560
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(1,299,995)	2,328,692	(210,069)	818,628
OTHER FINANCING SOURCES (USES):				
Transfers in	2,678,692		400,000	3,078,692
Transfers out	-	(2,328,692)	(750,000)	(3,078,692)
Total Other Financing Sources (Uses)	2,678,692	(2,328,692)	(350,000)	-
NET CHANGE IN FUND BALANCES	1,378,697	-	(560,069)	818,628
BEGINNING FUND BALANCES	7,735,434		1,616,369	9,351,803
ENDING FUND BALANCES	$ 9,114,131	$ -	$ 1,056,300	$ 10,170,431

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, 2005

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)	$	818,628
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.		199,452
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.		12,846
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.		(45,308)
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.		53,571
The net revenue of certain activities of the internal service fund is reported with governmental activities.		486,956
Change in net assets of governmental activities (page 22)	$	1,526,145

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

TOWN OF HILLSBOROUGH
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2005

	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	$ 8,822,365	$ 8,183,295	$ 2,725,062	$ 1,509,721	$ 11,547,427	$ 3,032,962
Trustee (Restricted)	2,744,564	5,081,759	6,052,141	7,764,125	8,796,705	
Receivables, net of estimated uncollectibles:						
Accounts	1,346,247	1,793,078	10,730	117,132	1,356,977	30,937
Interest	83,359	45,648	61,205	36,420	144,564	18,766
Due from other governments			1,771,198	1,101,276	1,771,198	
Prepaids	16,800	9,290	31,114	20,677	47,914	
Supplies	55,887	129,323			55,887	
Total current assets	13,069,222	15,242,393	10,651,450	10,549,351	23,720,672	3,082,665
Noncurrent assets:						
Cost of bond issuance (net of accumulated amortization)	199,941	208,540	395,223	412,520	595,164	
Capital assets:						
Buildings and improvements	292,176	292,176	49,161	49,161	341,337	
Machinery and equipment	552,767	455,279	473,642	444,502	1,026,409	2,483,150
Water and sewer lines	47,583,524	44,760,161	39,036,239	37,067,234	86,619,763	
Less accumulated depreciation	(30,893,541)	(29,741,800)	(19,686,531)	(18,710,920)	(50,580,072)	(1,229,244)
Total capital assets net of accumulated depreciation	17,534,926	15,765,816	19,872,511	18,849,977	37,407,437	1,253,906
Total noncurrent assets	17,734,867	15,974,356	20,267,734	19,262,497	38,002,601	1,253,906
Total Assets	30,804,089	31,216,749	30,919,184	29,811,848	61,723,273	4,336,571
LIABILITIES						
Current liabilities:						
Accounts payable	289,980	374,139	553,540	787,559	843,520	5,828
Deposits	484,445	427,100	102,454		586,899	
Uninsured claims	5,000	26,725	63,228	189,515	68,228	
Accrued interest payable	38,304	32,148	71,265	56,808	109,569	710
Certificates of participation - current	178,702	178,702	321,298	321,298	500,000	
Capital leases payable - current						187,719
Total current liabilities	996,431	1,038,814	1,111,785	1,355,180	2,108,216	194,257
Noncurrent liabilities:						
Certificates of participation	10,389,857	10,568,559	17,810,143	18,131,441	28,200,000	
Compensated absences	53,699	60,363	51,827	30,737	105,526	
Capital leases payable						196,146
Total noncurrent liabilities	10,443,556	10,628,922	17,861,970	18,162,178	28,305,526	196,146
Total Liabilities	11,439,987	11,667,736	18,973,755	19,517,358	30,413,742	390,403
NET ASSETS						
Invested in capital assets, net of related debt	9,710,931	10,100,271	7,793,211	8,161,295	17,504,142	869,331
Restricted for:						
Debt Service	250,000	250,000	250,000	250,000	500,000	
Unrestricted	9,403,171	9,198,742	3,902,218	1,883,195	13,305,389	3,076,837
Total Net Assets	$ 19,364,102	$ 19,549,013	$ 11,945,429	$ 10,294,490	31,309,531	$ 3,946,168

Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	288,531
Net assets of business-type activities	$ 31,598,062

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, 2005

	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	$ 5,539,081	$ 6,701,055			$ 5,539,081	
Water meter charges	332,697	332,247			332,697	
Sewer service charges			$ 4,960,583	$ 4,660,549	4,960,583	
Connection fees	63,982	99,526	15,767	25,524	79,749	
Other services						$ 771,490
Miscellaneous	6,987	27,801	64,635	76,961	71,622	39,215
Total Operating Revenues	5,942,747	7,160,629	5,040,985	4,763,034	10,983,732	810,705
OPERATING EXPENSES:						
Water purchases, utilities and pumping	2,267,030	2,523,000			2,267,030	
Sewage treatment services and utilities			1,037,438	1,929,565	1,037,438	
Personnel, overhead and facilities	1,946,003	1,734,204	1,277,617	1,184,269	3,223,620	
Materials, supplies and other	642,264	824,721	561,514	638,276	1,203,778	(479)
Depreciation and amortization	1,160,341	1,088,884	992,907	966,842	2,153,248	282,270
Total Operating Expenses	6,015,638	6,170,809	3,869,476	4,718,952	9,885,114	281,791
Operating Income (loss)	(72,891)	989,820	1,171,509	44,082	1,098,618	528,914
NONOPERATING REVENUES (EXPENSES):						
Investment earnings	280,113	133,437	111,521	115,906	391,634	66,355
Gain on sale of fixed assets						9,932
Reimbursement from other government			695,278		695,278	
Interest expense	(392,133)	(354,045)	(807,694)	(710,350)	(1,199,827)	(22,716)
Total nonoperating revenue (expenses)	(112,020)	(220,608)	(895)	(594,444)	(112,915)	53,571
Income (loss) before contributions and transfers	(184,911)	769,212	1,170,614	(550,362)	985,703	582,485
Capital contributions	-		480,325	1,101,276	480,325	
Change in net assets	(184,911)	769,212	1,650,939	550,914	1,466,028	582,485
Total net assets - beginning	19,549,013	18,779,801	10,294,490	9,743,576		3,363,683
Total net assets - end	$ 19,364,102	$ 19,549,013	$ 11,945,429	$ 10,294,490		$ 3,946,168
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.					41,958	
Change in net assets of business-type activities (page 22)					$ 1,507,986	

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, 2005

	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	$ 6,446,923	$ 6,776,336	$ 4,869,583	$4,751,368	$11,316,506	$ 479
Receipts from interfund services provided						810,705
Payment to suppliers	(3,864,584)	(3,976,163)	(2,596,275)	(2,530,097)	(6,460,859)	
Payment to employees	(1,008,295)	(876,872)	(581,607)	(505,411)	(1,589,902)	
Payment to interfund services used	(29,040)	(30,390)	(48,340)	(50,280)	(77,380)	
Net cash provided (used) by operating activities	1,545,004	1,892,911	1,643,361	1,665,580	3,188,365	811,184
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Reimbursement from other government			695,278		695,278	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from capital debt		5,765,682		9,171,318	-	
Receipts from capital contributions			88,207		88,207	
Cost of issuance		(49,470)		(78,693)	-	
Acquisition and construction of capital assets	(2,865,732)	(1,118,552)	(1,866,623)	(1,388,245)	(4,732,355)	(139,614)
Principal paid on capital debt	(178,702)	(140,103)	(321,298)	(259,897)	(500,000)	
Interest paid on capital debt	(441,097)	(359,949)	(822,304)	(682,058)	(1,263,401)	(23,049)
Capital lease payment						(179,653)
Proceeds from sale of capital assets						9,932
Net cash provided (used) by capital and related financing activities	(3,485,531)	4,097,608	(2,922,018)	6,762,425	(6,407,549)	(332,384)
CASH FLOWS FROM INVESTING ACTIVITIES						
Investment earnings	242,402	117,658	86,736	85,696	329,138	56,478
Net cash provided by investing activities	242,402	117,658	86,736	85,696	329,138	56,478
Net increase (decrease) in cash and cash equivalents	(1,698,125)	6,108,177	(496,643)	8,513,701	(2,194,768)	535,278
Cash and cash equivalents - beginning	13,265,054	7,156,877	9,273,846	760,145	22,538,900	2,497,684
Cash and cash equivalents - ending (including $2,744,564 and $6,052,141 for the water and sewer funds, respectively reported in restricted accounts	$11,566,929	$ 13,265,054	$ 8,777,203	$9,273,846	$20,344,132	$3,032,962
Reconciliation of operating income to net cash provided (used) by operating activities:						
Operating income (loss)	$ (72,891)	$ 989,820	$ 1,171,509	$ 44,082	$ 1,098,618	$ 528,914
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation and amortization expense	1,160,341	1,088,884	992,907	966,842	2,153,248	282,270
(Increase) decrease in accounts receivable	446,831	(431,593)	106,402	(11,666)	553,233	
(Increase) decrease in due from other governments			(277,804)		(277,804)	
(Increase) decrease in inventories and prepaids	65,926	12,904	(10,437)	4,476	55,489	
Increase (decrease) in customer deposits	57,345	47,300	-		57,345	
Increase (decrease) in accounts payable	(105,884)	174,806	(360,306)	654,045	(466,190)	
Increase (decrease) in compensated absences payable	(6,664)	10,790	21,090	7,801	14,426	
	1,617,895	903,091	471,852	1,621,498	2,089,747	282,270
Net cash provided (used) by operating activities	$ 1,545,004	$ 1,892,911	$ 1,643,361	$1,665,580	$ 3,188,365	$ 811,184

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

NOTES TO THE FINANCIAL STATEMENTS

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 March 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 amount 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 $1,068,321 difference are as follows:

Accrued interest payable	$ 170
Capital leases payable	20,493
Compensated absences	1,047,658
Net adjustment to reduce *fund balance – total governmental funds* to arrive at *net assets – governmental activities*	$1,068,321

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 $199,452 difference are as follows:

Capital outlay	$ 713,038
Depreciation expense	(513,586)
Net adjustment to increase *net changes in fund balances – total governmental funds* to arrive at *changes in net assets of governmental activities*	$ 199,452

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 12,846 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 $45,308 are as follows:

Compensated absences	($45,415)
Accrued interest	107
Net adjustment to decrease *net changes in fund balances – total governmental funds* to arrive at *changes in net assets of governmental activities*	($45,308)

NOTE 3 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY.

Excess of Expenditures over Appropriations

For the year ended June 30, 2005, expenditures exceeded appropriations for $490, $1,935, $1,348 and $27,691 in the Police and Fire Special Tax, Gas Tax, Measure "A" and Police Grants funds respectively. These over expenditures were funded by available fund balance in the respective funds.

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, 2005 are as follows:

Deposits and investments	$26,149,979
Restricted cash and investments – held by fiscal agent	8,796,705
Total	$34,946,684

Cash and investments as of June 30, 2005 consist of the following:

Cash on hand	$ 3,825
Deposits with financial institutions	224,717
Investments	34,718,142
Total cash and investments	$34,946,684

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
	2 years	80%	
TOWN OVERALL POOL	5 years	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:

Investment Type	Remaining Maturity (in Months) 12 Months Or Less	13-24 Months	25-60 Months	Total
U.S. Treasury bills	$ 2,987,864			$ 2,987,864
U.S. Treasury notes	1,975,300	$3,973,320	$2,968,159	8,916,779
Commercial paper	994,560			994,560
San Mateo County Pool	2,004,629			2,004,629
Local Agency Investment Fund (LAIF)	10,964,960			10,964,960
Money Market Funds (Custodial Bank)	52,645			52,645
HELD BY BOND TRUSTEE:				
Money Market Funds	57,205			57,205
Local Agency Investment Fund (LAIF)	8,739,500			8,739,500
Total	$27,776,663	$3,973,320	$2,968,159	$34,718,142

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:

Investment Type	Amount	Minimum Legal Requirement	Exempt From Disclosure	Rating as of Year End AAA/A1-P1	Not Rated
U.S. Treasury bills	$ 2,987,864	N/A	$ 2,987,864		
U.S. Treasury notes	8,916,779	N/A	8,916,779		
Commercial paper	994,560	A1-P1		$ 994,560	
Local Agency Investment Fund (LAIF)	10,964,960	N/A			$10,964,960
San Mateo County Pool	2,004,629	N/A			2,004,629
Money market funds (Custodial bank)	52,645	N/A		52,645	
HELD BY BOND TRUSTEE:					
Money market funds	57,205	N/A		57,205	
Local Agency Investment Fund (LAIF)	8,739,500	N/A			8,739,500
Totals	$34,718,142		$11,904,643	$1,104,410	$21,709,089

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, 2005, all Town's deposits with financial institutions were within the $100,000 government insured amount. As of June 30,2005, commercial papers for $994,560 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, 2005:

Interest earned	$655,853
Net change in fair market value	48,836
Total	$704,689

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005 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			1,938,715
Buildings	2,587,158			2,587,158
Machinery and equipment	4,263,219	173,183	(83,091)	4,353,311
Infrastructure	9,544,657	654,361		10,199,018
Total capital assets being depreciated	18,333,749	827,544	(83,091)	19,078,202
Less accumulated depreciation for:				
Land improvements	(535,212)	(101,100)		(636,312)
Buildings	(1,813,671)	(69,058)		(1,882,729)
Machinery and equipment	(2,317,438)	(442,601)	(83,091)	(2,676,948)
Infrastructure	(5,633,057)	(183,097)		(5,816,154)
Total accumulated depreciation	(10,299,378)	(795,856)	(83,091)	(11,012,143)
Total capital assets, being depreciated, net	8,034,371	31,688		8,066,059
Governmental activities capital assets, net	$ 9,490,931	$ 31,688	$	$ 9,522,619

	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	899,780	126,627		1,026,407
Systems & transmissions	81,827,396	4,792,368		86,619,764
Total capital assets being depreciated	83,068,513	4,918,995		87,987,508
Less accumulated depreciation for:				
Buildings	(214,248)	(11,680)		(225,928)
Machinery and equipment	(466,952)	(70,367)		(537,319)
Systems & transmissions	(47,771,520)	(2,045,304)		(49,816,824)
Total accumulated depreciation	(48,452,720)	(2,127,351)		(50,580,071)
Total capital assets, being depreciated, net	34,615,793	2,791,644		37,407,437
Business-type activities capital assets, net	$ 34,615,793	$ 2,791,644	$	$ 37,407,437

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
General government	$136,076
Public safety	178,683
Community services	764
Public works	198,063
Capital assets held by the Town's internal service funds are charged to the various functions based on their usage of the assets	282,270
Total depreciation expense – governmental activities	$795,856

Business-type Activities:	
Water	$1,151,740
Sewer	975,611
Total depreciation expense – business-type activities	$2,127,351

NOTE 6 – INTERFUND TRANSACTIONS

The following is a summary of the interfund transactions for the year ended June 30, 2005:

	Transfer In		
Transfer Out	General Fund	Nonmajor Governmental Funds	Total
Police and Fire special tax fund	$2,328,692		$2,328,692
Nonmajor governmental funds	350,000	400,000	750,000
Total	$2,678,692	$ 400,000	$3,078,692

The transfers in to the General Fund included $2,328,692 transfer from the Police and Fire Special Tax Fund – a pass though fund – and $350,000 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. 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.

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	200,496
Total	$ 750,338

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

	Governmental Activities
Year Ending 6/30	Amount
2006	$217,050

2007	209,875
Total minimum lease payments	426,925
Less: Amount representing interest	(22,566)
Present value of minimum lease payments	$ 404,359

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.

Fair value. The following fair values of the swaps as of June 30, 2005 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	($ 227,489)
2000B	9,300,000	(437,728)
2003A	14,500,000	(742,014)
Total		($1,407,231)

Credit risk. As of June 30, 2005, the Town was not exposed to credit risk because the swaps had negative fair values. However, should interest rates increase and the swaps' fair values become positive, Town would be exposed to credit risk in the amount of the derivatives' fair values. 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, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Capital leases	$ 596,857	$	($192,498)	$ 404,359	$201,213
Compensated absences	1,030,727	64,153	(47,222)	1,047,658	
Governmental activity long-term liabilities	$ 1,627,584	$ 64,153	($239,720)	$ 1,452,017	$201,213
Business-type activities:					
Compensated absences	$ 91,100	$ 21,090	$ (6,664)	$ 105,526	$
Certificates of participation	29,200,000		(500,000)	28,700,000	500,000
Business-type activity long-term liabilities	$29,291,100	$ 21,090	($506,664)	$28,805,526	$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.

On August 21, 2003, the Town issued $15,000,000 of variable rate certificates of participation (water and sewer system projects) 2003 Series A to finance various water and wastewater projects, consistent with the enterprise's ten year capital improvement plan.

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 SPA expires on May 26, 2008.

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, 2005.

In 2005, the Town's total interest cost was approximately 4.4%. Using rates as of June 30, 2005, 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	
June 30	Principal	Interest	Swaps, Net	Total
2006	$ 500,000	$ 636,853	$ 628,315	$1,765,168
2007	500,000	625,758	618,650	1,744,408
2008	600,000	614,663	440,768	1,655,431
2009	600,000	601,349	431,103	1,632,452
2010	600,000	588,035	421,438	1,609,473
2011-2015	4,300,000	2,691,647	1,931,359	8,923,006
2016-2020	5,100,000	2,183,496	1,583,539	8,867,035
2021-2025	6,200,000	1,575,490	1,152,656	8,928,146
2026-2030	7,800,000	812,154	621,321	9,233,475
2031-2033	2,500,000	113,169	98,991	2,712,160
	$28,700,000	$10,442,614	$7,928,140	$47,070,754

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, 2005 was $4,320,000.

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, 2005 were $493,230. 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 joins 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, 2005 and 2004.

	2005	**2004**
Beginning Balance	$ 287,129	$ 203,743
Claims incurred and changes in estimates for prior year claims	(52,689)	360,744
Claims paid	(165,722)	(277,358)
Ending Balance	$ 68,718	$ 287,129

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 $13,000. 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 an agreements it entered into with the municipalities. The costs incurred by the Town under these agreements amounted to $1,027,620 and $1,228,390 as of June 30, 2005 and 2004, 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 $579,411 and $527,895 as of June 30, 2005 and 2004, respectively.

At June 30, 2005, the Town has outstanding construction contracts and commitments for the water and sewer operations, as follows:

Water Fund	$ 2,880,641
Sewer Fund	3,060,805
Total	$ 5,941,446

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 79 employees who are receiving this benefit. The Town finances the plan on a pay-as-you-go basis. For the year ended June 30, 2005, the Town paid $521,883 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 2005, plan members contributed

$758,989. 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 2005, the Town's annual pension cost was $1,698,864 The required contribution for the current year was determined as part of the June 30, 2002 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, 2005 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 contribute rates	16.947%/28.382%	17.411%	17.741%

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	6/30/03	$ 46,520	100%	$ - 0 -
	6/30/04	$ 392,107	100%	$ - 0 -
	6/30/05	$ 676,201	100%	$ - 0 -
Public Safety	6/30/03	$ - 0 -		$ - 0 -
	6/30/04	$ 254,267	100%	$ - 0 -
	6/30/05	$1,022,663	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, 2005 amounted to $358,733.

NOTE 15 – NEW ACCOUNTING PRONOUNCEMENTS

In March 2003, the Governmental Accounting Standards Board (GASB) issued *Statement No. 40,* Deposit and Investment Risk Disclosures effective for periods beginning after June 15, 2004. The

statement adds to and changes certain of the financial statement disclosure requirements for cash and investments of local governments. This report reflects the implementation of these requirements.

In November 2003, GASB issued *Statement No. 42*, Accounting and Financial Reporting Impairment of Capital Assets and for Insurance Recoveries establishing guidance for accounting and reporting for impairment of capital assets and for insurance recoveries, whether associated with an impaired capital asset or not. This statement is effective for periods beginning after December 31, 2004, or during the 2005-06 fiscal year. Town does not believe this statement will have a significant impact on the financial statements.

In May 2004, GASB issued *Statement No. 44*, Economic Condition Reporting: The Statistical Section, which provides guidance on the tables and narrative explanations in the statistical section. The requirements of this statement are effective for fiscal periods beginning after June 15, 2005. Town is implementing this requirement for this report year.

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, 2007. 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 believe this Statement will have a significant impact on the financial statements.

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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)	Overfunded (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						
6/30/2002	17,234,459	17,351,927	(117,468)	100.7%	1,985,589	-5.9%
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%
FIRE:						
Retirement Program						
6/30/2002	20,620,093	20,759,574	(139,481)	100.7%	2,685,455	-5.2%
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%
MISCELLANEOUS: (3)						
Retirement Program						
6/30/2002	14,241,181	12,396,728	1,844,453	87.0%	3,168,847	58.2%
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%

(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
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
REVENUES:				
Taxes:				
Property	$ 7,470,606	$ 7,707,606	$ 7,863,429	$ 155,823
Franchise taxes	605,196	595,196	586,374	(8,822)
Business license tax	580,511	580,511	639,135	58,624
All others	136,243	597,774	589,025	(8,749)
Permits	1,016,053	956,053	1,002,682	46,629
Intergovernmental	716,550	785,800	825,357	39,557
Service charges	1,073,482	957,176	1,120,255	163,079
Fines and forfeitures	29,500	29,500	39,559	10,059
Investment earnings	150,000	150,000	211,526	61,526
Miscellaneous	398,700	434,465	449,278	14,813
Total Revenues	12,176,841	12,794,081	13,326,620	532,539
EXPENDITURES:				
Current:				
General government	726,597	773,387	727,012	46,375
Public safety	10,601,599	11,153,169	10,563,783	589,386
Community services	2,081,264	2,127,694	1,990,926	136,768
Streets	1,378,475	1,378,475	1,335,972	42,503
Capital outlay	8,930	8,930	8,922	8
Total Expenditures	14,796,865	15,441,655	14,626,615	815,040
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(2,620,024)	(2,647,574)	(1,299,995)	1,347,579
OTHER FINANCING SOURCES (USES):				
Operating transfers in	2,665,442	2,678,202	2,678,692	490
Operating transfers out	-	-	-	-
Total Other Financing Sources (Uses)	2,665,442	2,678,202	2,678,692	490
NET CHANGE IN FUND BALANCES	45,418	30,628	1,378,697	1,348,069
BEGINNING FUND BALANCES	7,735,434	7,735,434	7,735,434	-
ENDING FUND BALANCES	$ 7,780,852	$ 7,766,062	$ 9,114,131	$ 1,348,069

TOWN OF HILLSBOROUGH
POLICE AND FIRE SPECIAL TAX FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Original and Final Budget	Actual	Variance with Final Budget - Positive (Negative)
REVENUES:			
Police and Fire special tax	$ 2,188,202	$ 2,188,202	$ -
Investment earnings	140,000	140,490	490
Total Revenues	2,328,202	2,328,692	490
EXPENDITURES:			
Current:			
General Government	-	-	-
Total Expenditures	-	-	-
EXCESS OF REVENUES OVER EXPENDITURES	2,328,202	2,328,692	490
OTHER FINANCING USES:			
Operating Transfers Out	(2,328,202)	(2,328,692)	(490)
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER USES	-	-	-
BEGINNING FUND BALANCES	-	-	-
ENDING FUND BALANCES	$ -	$ -	$ -

Town of Hillsborough
Note to Required Supplementary Information
June 30, 2005

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, 2005 were $3,216. 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, 2005

	SPECIAL REVENUE FUNDS				
	Gas Tax	Measure A	Police Grants	CAPITAL PROJECTS	Total Nonmajor Governmental Funds
ASSETS					
Cash and investments:					
Town Treasury	$ -	$ 71,304	$ 156,410	$ 784,618	$ 1,012,332
Interest receivable	258	1,958	802	4,001	7,019
Due from other governments	21,409	33,644			55,053
Total Assets	$ 21,667	$ 106,906	$ 157,212	$ 788,619	$ 1,074,404
LIABILITIES					
Accounts payable	$ -	$ -	$ 2,743	$ 15,164	$ 17,907
Due to other funds	197				197
Total Liabilities	197	-	2,743	15,164	18,104
FUND BALANCES					
Unreserved -					
Designated for streets	21,470	106,906			128,376
Designated for public safety			154,469		154,469
Designated for capital improvement plan				773,455	773,455
Total Fund Balances	21,470	106,906	154,469	773,455	1,056,300
Total Liabilities & Fund Balances	$ 21,667	$ 106,906	$ 157,212	$ 788,619	$ 1,074,404

TOWN OF HILLSBOROUGH
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	SPECIAL REVENUE FUNDS				
	Gas Tax	Measure A	Police Grants	CAPITAL PROJECTS	Total Nonmajor Governmental Funds
REVENUES:					
Police and fire special tax	$ -	$ -	$ -	$ -	$ -
Intergovernmental	217,071	352,463	100,000	-	669,534
Investment earnings	1,477	7,447	5,462	20,788	35,174
Miscellaneous				39,168	39,168
Total Revenues	218,548	359,910	105,462	59,956	743,876
EXPENDITURES:					
Current:					
General government	11,935	6,548		134	18,617
Public safety			63,437	15,520	78,957
Community services				137,352	137,352
Public works				14,904	14,904
Capital outlay			49,754	654,361	704,115
Total Expenditures	11,935	6,548	113,191	822,271	953,945
EXCESS OF REVENUES OVER EXPENDITURES	206,613	353,362	(7,729)	(762,315)	(210,069)
OTHER FINANCING SOURCES (USES):					
Transfers In				400,000	400,000
Transfers Out	(200,000)	(550,000)			(750,000)
Total Other Financing Sources (Uses)	(200,000)	(550,000)	-	400,000	(350,000)
NET CHANGE IN FUND BALANCES	6,613	(196,638)	(7,729)	(362,315)	(560,069)
BEGINNING FUND BALANCES	14,857	303,544	162,198	1,135,770	1,616,369
ENDING FUND BALANCES	$ 21,470	$ 106,906	$ 154,469	$ 773,455	$ 1,056,300

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, 2005

	Original and Final Budget	Actual	Variance with Final Budget - Positive (Negative)
REVENUES:			
Intergovernmental	$ 220,000	$ 217,071	$ (2,929)
Investment earnings	500	1,477	977
Total Revenues	220,500	218,548	(1,952)
EXPENDITURES:			
Current:			
General Government	10,000	11,935	(1,935)
Total Expenditures	10,000	11,935	(1,935)
EXCESS OF REVENUES OVER EXPENDITURES	210,500	206,613	(3,887)
OTHER FINANCING USES:			
Operating Transfers Out	(200,000)	(200,000)	-
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER USES	10,500	6,613	(3,887)
BEGINNING FUND BALANCES	14,857	14,857	-
ENDING FUND BALANCES	$ 25,357	$ 21,470	$ (3,887)

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, 2005

	Original and Final Budget	Actual	Variance with Final Budget - Positive (Negative)
REVENUES:			
Intergovernmental	$ 350,000	$ 352,463	$ 2,463
Investment earnings	500	7,447	6,947
Total Revenues	350,500	359,910	9,410
EXPENDITURES:			
Current:			
General Government	5,200	6,548	(1,348)
Total Expenditures	5,200	6,548	(1,348)
EXCESS OF REVENUES OVER EXPENDITURES	345,300	353,362	8,062
OTHER FINANCING USES:			
Operating Transfers Out	(550,000)	(550,000)	-
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER USES	(204,700)	(196,638)	8,062
BEGINNING FUND BALANCES	303,544	303,544	-
ENDING FUND BALANCES	$ 98,844	$ 106,906	$ 8,062

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, 2005

	Original and Final Budget	Actual	Variance with Final Budget - Positive (Negative)
REVENUES:			
Intergovernmental	$ 100,000	$ 100,000	$ -
Investment earnings	500	5,462	4,962
Total Revenues	100,500	105,462	4,962
EXPENDITURES:			
Current:			
General government		-	-
Public safety	35,500	63,437	(27,937)
Capital Outlay	50,000	49,754	246
Total Expenditures	85,500	113,191	(27,691)
EXCESS OF REVENUES OVER EXPENDITURES	15,000	(7,729)	(22,729)
OTHER FINANCING USES:			
Operating Transfers Out		-	-
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER USES	15,000	(7,729)	(22,729)
BEGINNING FUND BALANCES	162,198	162,198	-
ENDING FUND BALANCES	$ 177,198	$ 154,469	$ (22,729)

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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, 2005

	2005	2004
Governmental funds capital assets:		
Land	$ 1,456,560	$ 1,456,560
Land improvements	1,938,715	1,938,715
Building and improvements	2,587,158	2,587,158
Machinery and equipment	1,870,161	1,832,509
Infrastructure	10,199,018	9,544,657
Total governmental funds capital assets	$ 18,051,612	$ 17,359,599
Investments in governmental funds capital assets by source:		
General fund	$ 1,197,087	$ 1,209,189
Special revenue fund	111,634	61,880
Capital projects funds	10,668,274	10,013,913
Other - unclassified	6,074,617	6,074,617
Total governmental funds capital assets	$ 18,051,612	$ 17,359,599

(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, 2005

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	3,348,541	195,409	276,796		3,820,746
Total General Government	3,348,541	201,564	359,066	-	3,909,171
Public Safety:					
Police		76,075	965,477		1,041,552
Fire	46,734	892,846	535,001		1,474,581
Total Public Safety	46,734	968,921	1,500,478	-	2,516,133
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	10,199,018	11,613,573
Total Public Work		1,410,693	3,862	10,199,018	11,613,573
TOTAL GOVERNMENTAL FUNDS CAPITAL ASSETS	$ 3,395,275	$ 2,587,158	$ 1,870,161	$ 10,199,018	$ 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 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, 2005

	Governmental Funds Capital Assets July 1, 2004	Additions	Retirements	Governmental Funds Capital Assets June 30, 2005
General Government:				
Council	$ 13,046	$ -	$ -	$ 13,046
Finance	75,379			75,379
General Services	3,817,237	3,509		3,820,746
Total General Government	3,905,662	3,509	-	3,909,171
Public Safety:				
Police	1,007,409	55,168	$ 21,025	1,041,552
Fire	1,474,581			1,474,581
Total Public Safety	2,481,990	55,168	21,025	2,516,133
Community Services:				
Building	12,735			12,735
Total Community Services	12,735	-	-	12,735
Public Work:				
Engineering	-			-
Streets	10,959,212	654,361		11,613,573
Total Public Work	10,959,212	654,361	-	11,613,573
TOTAL GOVERNMENTAL FUNDS CAPITAL ASSETS	$ 17,359,599	$ 713,038	$ 21,025	$ 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 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 *76*

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 FOUR YEARS (1)

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

(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
Expenses:			
Governmental activities:			
General government	$ 861,208	$ 748,034	$ 849,893
Public safety	9,332,715	9,795,994	10,408,830
Community services	1,757,876	1,917,420	2,155,271
Streets	1,057,967	1,482,061	1,512,620
Interest on long-term debt	35,070	30,448	22,716
Total governmental activities expenses	13,044,836	13,973,957	14,949,330
Business-type activities:			
Water	5,486,503	6,502,981	6,387,594
Sewer	4,660,778	5,398,232	4,655,389
Total business-type activities	10,147,281	11,901,213	11,042,983
Program Revenues:			
Governmental activities:			
Charges of services:			
General government	172,576	194,931	183,974
Public safety	393,653	562,800	594,236
Community services	1,069,180	1,304,056	1,476,419
Streets	51,083	71,435	97,064
Operating grants and functional taxes	2,889,847	3,198,961	2,973,402
Capital grants and contributions	363,600		
Total governmental activities program revenues	4,939,939	5,332,183	5,325,095
Business-type activities:			
Charges for services:			
Water	5,740,293	7,160,629	5,942,747
Sewer	3,661,714	4,763,034	5,040,985
Operating grants			
Capital grants, contributions & other non-operating revenues	628,200	1,101,276	1,175,603
Total business-type program revenues	10,030,207	13,024,939	12,159,335
(1) Information from 95/96 through 00/01 were reported under the old fina	14,970,146	18,357,122	17,484,430
Net (Expense)/Revenue:			
Governmental activities	(8,104,897)	(8,641,774)	(9,624,235)
Business-type activities	(117,074)	1,123,726	1,116,352
Total primary government net revenue	(8,221,971)	(7,518,048)	(8,507,883)
General Revenues and Other Changes in Net Assets			
Governmental activities:			
Taxes:			
Property tax	6,863,862	7,321,906	7,863,429
Property transfer tax	200,621	293,904	294,927
Franchise tax	271,332	597,022	586,374
Sales tax	70,267	75,842	51,436
Motor vehicle license tax	650,556	490,656	705,702
Business license tax	421,194	596,959	639,135
All others	193,642	580,603	700,775
Unrestricted investment earnings	216,459	107,018	298,670
Miscellaneous	6,040		9,932
Total governmental activities	8,893,973	10,063,910	11,150,380
Business-type activities:			
Investment earnings	192,093	249,343	391,634
Prior period adjustment	445,650		
Total business-type activities	637,743	249,343	391,634
Total primary government	9,531,716	10,313,253	11,542,014
Change in Net Assets			
Governmental activities	789,076	1,422,136	1,526,145
Business-stype activities	520,669	1,373,069	1,507,986
Total primary government	$1,309,745	$2,795,205	$3,034,131

(1) Information from 95/96 through 00/02 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)
95/96	$3,854,742	$1,408,696		$ 117,490	$ 158,179	$ 59,743	$ 417,257	$ 299,385	
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

(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 is going to be 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
95/96	$ 7,693	$3,365,936	$3,373,629		$ 465,185	$ 524,989	$ 990,174
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

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

	Fiscal Year									
	95/96	96/97	97/98	98/99	99/00	00/01	01/02	02/03	03/04	04/05
Revenues:										
Taxes	$5,851,076	$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
Permits	291,420	415,774	427,335	582,960	532,547	757,279	702,091	592,012	952,786	1,002,682
Intergovernmental	1,032,926	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
Service charges	340,249	426,921	447,773	722,953	1,015,086	1,160,563	1,011,728	1,005,587	1,095,947	1,260,745
Fines and forfeitures	49,903	65,106	31,037	9,759	16,491	18,644	15,998	35,024	38,843	39,559
Investment earnings	303,205	267,091	299,938	441,687	394,913	579,444	370,887	168,306	88,513	246,700
Miscellaneous	292,599	149,156	290,605	140,930	282,557	227,236	231,171	235,912	246,838	488,446
Total revenues	8,161,378	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
Expenditures:										
General government	214,011	239,778	318,149	122,105	249,417	909,503	1,238,482	701,861	610,012	745,629
Public safety	5,580,156	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
Community services	2,019,166	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
Streets	516,776	343,375	382,668	246,058	650,047	608,265	989,953	1,192,607	1,292,613	1,350,876
Capital outlay	659,842	66,534	146,423	1,049,292	552,667	847,579	2,003,835	853,867	657,957	713,037
Total expenditures	8,989,951	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
Excess of revenues over (under) expenditures	(828,573)	299,338	(22,855)	83,704	1,806,398	2,188,026	(401,270)	(133,222)	1,116,334	818,628
Other Financing Sources (Uses):										
Proceeds from borrowing							62,823			
Transfers in	78,000	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
Transfers out	(78,000)	(197,383)	(72,586)	(1,675,595)	(668,716)	(3,671,199)	(5,504,423)	(2,975,094)	(3,186,518)	(3,078,692)
Total Other Financing Sources (Uses)	-	-	96,500	188,979	553,000	639,000	(1,760,642)	125,000	-	-
NET CHANGE IN FUND BALANCES	$ (828,573)	$ 299,338	$ 73,645	$ 272,683	$2,359,398	$2,827,026	$(2,161,912)	$ (8,222)	$ 1,116,334	$ 818,628
NET CHANGE IN FUND BALANCES - GENERAL FUND	$ 393,848	$ 103,985	$ 167,633	$ 417,659	$1,400,421	$1,533,765	$(1,112,705)	$ 470,839	$ 1,069,161	$ 1,378,697

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

TOWN OF HILLSBOROUGH
ASSESSED VALUES OF TAXABLE PROPERTY
LAST NINE FISCAL YEARS AND FISCAL YEAR 2005-2006

Fiscal Year		SECURED Gross Values	SECURED Exemptions	SECURED 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%

(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)						
95/96		1.0000	1.0197	1.0000	1.0256		
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

(1) Allocation factors are before the Educational Revenue Augmentation Fund (ERAF) shift.
(2) The composite tax rate is the total of the county wide $1.00 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 2004/2005

	2004/2005			1998/1999		
Taxpayer (Number of Parcels)	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
James G. B. De Martini III (5)	$ 32,271,681	1	0.67%			
Val E. Vaden Trust (1)	16,421,606	2	0.34%			
Amati LLC (1)	15,539,892	3	0.32%			
Terence J. Garnett (2)	12,876,135	4	0.27%	5,021,000	8	0.17%
Otto J. Miller (5)	10,487,584	5	0.22%			
Charles M. Parrish (2)	9,188,675	6	0.19%			
Rupert H. Johnson Jr. (1)	9,069,410	7	0.19%	5,396,530	6	0.18%
Bo Thorenfeldt (4)	9,001,129	8	0.19%			
Jeffrey Chan (4)	8,955,296	9	0.18%			
Stephen W. Dewitt (1)	8,372,610	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: HdL Coren & Cone, San Mateo County Assessor's Office

TOWN OF HILLSBOROUGH
PROPERTY TAX LEVIES AND COLLECTIONS (1)
LAST SEVEN 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%

(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

	Governmental Activities	Business-Type Activities		
Fiscal Year	Capital Leases	Certificates of Participation	Total Primary Government	Per Capita
95/96		$ 4,840,000	$ 4,840,000	$ 432
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

(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
COMPUTATION OF DIRECT AND OVERLAPPING DEBT
June 30, 2005

Jurisdiction	Applicable Percentage	6/30/2005 Debt
DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:		
San Mateo Union High School District	14.005%	$ 18,649,051
San Mateo Community College District	5.003%	8,058,870
Hillsborough School District	99.895%	12,806,539
Burlingame School District	0.024%	4,183
Town of Hillsborough		-
Total Direct and Overlapping Tax and Assessment Debt		39,518,643
OVERLAPPING GENERAL FUND OBLIGATION DEBT:		
San Mateo County General Fund Obligations	5.003%	20,841,742
San Mateo County Board of Education Certificates of Participation	5.003%	229,388
San Mateo Community College District Certificates of Participation	5.003%	1,545,177
San Mateo County Mosquito Abatement District Certificates of Participation	6.925%	103,529
Total Gross Overlapping General Fund Obligation Debt		22,719,836
Combined Total Debt		$ 62,238,479 (1)
RATIOS TO ASSESSED VALUATION:		
Direct Debt		-
Total Overlapping Tax and Assessment Debt		0.82%
Combined Total Debt		1.29%

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

Source: California Municipal Statistics, Inc.

TOWN OF HILLSBOROUGH
LEGAL DEBT MARGIN INFORMATION
LAST EIGHT 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

(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
1995-96	$ 5,245,243		$ 4,044,434	$ 1,200,809	$ 160,000	$ 247,683	$ 407,683		$ 2.95
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

(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	Water (2) % of Change	Sewer Residential	Sewer % 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) A mid-year water rate increase will be requested pending issuance of new bonds.

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

(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
FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION
LAST TEN FISCAL YEARS

Function	95/96	96/97	97/98	98/99	99/00	00/01	01/02	02/03	03/04	04/05
General Government:										
City Manager	2	3	3	3	3	3	3	4	4	4
Finance	4	4	4	4	4	4	4	4	4	5
Community Services	5	5	5	5	6	7	7	7	7	7
Public Safety:										
Police	34	34	31	33	35	35	35	36	36	36
Fire (1)	29	30	30	35	37	37	37	37.75	37.75	30.75
Public WorKs:										
Administration	1	1	1	1	2	2	4	4	5	5
Maintenance:	18	17	20	20						
Streets					6	7	8	8	7	7
Water					6	7	7	7	11	11
Sewer					6	6	6	6	7	7
Total	93.00	94.00	94.00	101.00	105.00	108.00	111.00	113.75	118.75	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.

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

	Fiscal Year/Calendar Year									
	95/96	96/97	97/98	98/99	99/00	00/01	01/02	02/03	03/04	04/05
Function:										
Police (1)										
Calls for Service	8,773	9,001	10,048	8,914	8,521	9,512	7,603	8,221	7,757	7,274
Burglar Alarm Activations	4,960	5,130	5,137	4,413	3,999	3,482	3,313	3,319	2,973	2,885
Arrests:										
Adult	150	93	136	96	44	49	67	51	66	76
Juvenile	37	24	32	20	16	14	16	11	19	22
Traffic Activity:										
Fatal Injury Accidents									2	
Injury Accidents	16	18	19	19	14	12	17	13	21	13
Non-injury Accidents	88	76	93	45	73	72	66	68	50	68
Moving Citations	458	317	416	255	182	791	727	485	501	408
Courtesy Warning Citations	1,002	627	659	412	659	979	547	335	279	175
Criminal Activity:										
Crimes against persons	14	15	14	16	17	14	28	43	42	27
Crimes against property	97	90	96	83	61	58	63	155	120	228
Fire (1)										
Number of calls answered						1,550	1,676	1,854	1,607	2,711
Inspections								680	578	
Planning - Design Review (1)										
New Houses Approved		21	14	32	17	33	17	26	17	18
Other Applications Approved		103	225	226	266	309	308	259	263	243
Building										
# of Permits Issued	2,142	2,174	2,224	2,388	2,445	2,454	2,118	1,948	2,378	2,317
# of Projects	723	869	813	972	833	817	739	697	671	776
Valuation of Permits Issued (in 000's)	$ 27,937	$ 26,694	$ 39,219	$ 59,147	$ 60,128	$ 79,214	$ 74,079	$ 54,049	$ 75,540	$ 81,856
Total New Dwellings	9	16	14	22	15	25	16	12	21	17
Streets										
Street resurfacing (miles)									2.65	14.07
Potholes repaired					35	35	40	45	40	50
Guardrail replacement (LF)						60	125	75	125	70
Storm drains cleaned					2,210	1,692	2,585	3,135	2,775	2,000
After hour callbacks						9	21	11	13	20
Water										
New connections						4	2	15	20	11
Water mains breaks							8	18	9	7
Water purchased (thousand of gallons)						1,291	1,299	1,239	1,449	1,220
Retail water sales (thousands of gallons)							1,329	1,203	1,343	1,166
Meter replacements						36	40	70	58	37
No of meter reads (calendar year)							25,038	25,102	25,267	
Cost per read ($/read)						$ 1.36	$ 1.40	$ 1.44	$ 1.48	$ 1.52
After hour callbacks						16	50	42	8	75
Wastewater										
Average daily flow (sewer-MGD)										
San Mateo								0.54	0.33	
Burlingame							0.59	0.72	0.77	0.63
Total								1.26	1.10	
After hour callbacks						24	50	41	11	37

(1) Calendar year data

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

	Fiscal Year									
	95/96	96/97	97/98	98/99	99/00	00/01	01/02	02/03	03/04	04/05
Function:										(1)
Public Safety										
Police:										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol units										
Fire Stations	3	3	3	3	3	3	3	3	3	5
Streets & Storm Drains										
Streets (miles)	79.4	80.3	80.4	80.4	80.4	80.4	80.4	80.4	80.5	80.9
Storm drains (miles)						31.3	31.3	31.5	31.5	31.5
Water										
Water mains (miles)						97.24	97.24	97.24	97.71	96.71
Fire Hydrants						906	906	918	925	938
Maximum daily capacity (thousands of gallons)						8,325	8,325	8,325	8,325	8,325
Sewer										
Sanitary sewers (miles)						100.2	100.2	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